

Picture This...

“Mom, I want caramel popcorn and soft drink”, said 5-year old Anushka to her mother who was standing in a long queue at a food and beverage (F&B) counter in a plush multiplex, *Picture Perfect*. They had come to watch the latest animation flick on a Sunday afternoon. Around 4 p.m. was the intermission break, when the patrons mostly accompanied by children between the age of 4-14 years had come out in hoards to buy rather overpriced snacks and drinks to indulge their children, or just stretch their limbs after 70 minutes of air conditioned confines.

Just as Anushka’s mother was trying to explain to her that cold soft drink may not be good for her health, Anirudh Sen, the multiplex manager happened to pass them on his mandatory tour of all four auditorium bays especially in the first week of screening of any movie. The F&B counter looked packed and so was the auditorium inside along with one other auditorium showing the same movie. Average occupancies for the first two days of this movie running seven shows a day was over 60% and with Sunday figures coming in it could well cross 70%. F&B counters were also doing great business and so were some gaming counters of the company strategically placed just outside the auditorium entry. While everyone seemed to be having a good time, Sen seemed to be lost in thought. In exactly eight days he had to attend a very important review meeting, where along with other regional heads of the company he had to present an update on his region’s performance and help the company take a very critical decision.

Sen was in charge of a region which had 16 screens spread across four properties. A snapshot of the first six months of the calendar 2008 performance was in his hand:

Multiplex	A	B	C	D	E
No. of Screens	4	4	4+1	3	1
Seats	1120	1332	1312+212	855	1020
Location	Developing Suburb	Major Residential Suburb	Major Residential Suburb	Tier 2 city, 200 km away	Old City Centre, under consideration
Jan-Jun 2008					
Average Occupancy	40%	31%	29%	39%	27%
Average Ticket Price (ATP)	88	119	132	96	62
Average F&B spend	21	26	36	18	12
Average Gaming Spend	17	15			
Jul-Dec 2007					
Average Occupancy	42%	35%	32%	42%	
ATP	85	121	125	96	
Average F&B spend	20	32	34	17	
Jan-Jun 2007					
Average Occupancy	41%	34%	32%	40%	

ATP	85	105	113	95
Average F&B spend	20	28	35	16

Multiplex A is located in a fast developing suburb, approximately 30 km. from the city centre. Picture Perfect was the first of its kind multiplex and entertainment zone developed in this area nearly five years after urban population started settling in there. The novelty and the convenience attracted hoards to this multiplex and aided by moderate ticket prices, the multiplex reported maximum occupancies not only in the region but across the country in the first 15 months of its existence. Recently, the management added a gaming zone in the waiting area of the multiplex, which also became hugely popular (and to Sen's surprise it attracted more adult patrons than children!) and an additional source of revenue for the multiplex. However, competition was fast catching up. Since Picture Perfect opened its facility here, at least three new cinema theatres totaling to 14 screens had started construction, one coming up in the next three months coinciding with the release of many big budget movies with the start of the Indian festive season.

Multiplex B & C were the company's flagship properties, located in major residential suburbs, serving all strata and age groups, and actually giving the company its identity in the city. Each of these multiplexes was more than three year old but due to constant promotional activities, service innovations, and quality of content they attracted lot of repeat clientele and were favorites among movie distributors to hold premiere shows! But recently there were some issues that demanded Sen's immediate attention. About a year back, the management decided to raise the ticket price of Multiplex B by about 15% as this multiplex was soon to come out of the Entertainment Tax (E-Tax) exemption. At the same time the management ran a major promotional campaign to let the hike be absorbed by the markets. Fortunately, all this coincided with some mega budget Indian and International movie releases resulting in overall gain in occupancy levels as well as increase in F&B revenue.

However, as the school exam time set in and the promotional offers ended, occupancy dipped significantly and market feedback also turned somewhat negative. From being the first choice of movie goers in the surrounding area Multiplex B became a last resort when competitors ran full houses. To increase its revenue per head (including ticket price + F&B revenue + other paid services), and buoyed by the success of Multiplex A, a gaming zone was added to the multiplex. Some promotional offers bundling gaming coupons with ticket prices were also running simultaneously, which made this Rs.10.5 million investment a reasonable success. While recent reports from Multiplex B were somewhat disturbing, Sen himself was not really alarmed. With twelve years behind him in this industry, he was sure that with another good season the hike in prices would be absorbed and market perception suitably modified, if required, aided with some more promotional campaigns.

Multiplex C bettered Multiplex B on location and space factors and hence commanded a slight premium over all other properties. About five months back a lounge auditorium was introduced here with 212 plus reclining seats and sofas as seating options. Also thrown in was an upgraded menu, a plush waiting room, a complimentary drink and a first of its kind child care facility! Average occupancy was slightly on the lower side due to overall higher ticket prices and factoring in about 15-16% average occupancy of the lounge auditorium.

Multiplex D was the only multiplex of the company in a Tier 2 town of the region, started about two years back it was steady performing facility. Operational overheads were about 9-10% lower than other

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city multiplexes and informal understanding between competitors assured a normal return on investment. Along with mainstream Indian and International cinema, the multiplex also ran shows in regional languages at about 15% lower ticket price. This had forced the management to explore other such options as well.

Multiplex E or rather we should say *Theatre E* is what the company is contemplating to acquire. A 40 year old heritage property set against one of the oldest city centre and a prominent landmark in its area. Sen has to devise a plan to remodel this property based on his experience of running other multiplexes in his region. One architectural design for a three screen, 840 seat multiplex was under consideration, Sen and his team had to come up with the pricing strategy, type of facilities, promotional offers, brand building et al. While Sen had experience in refurbishment of old theatres, the proliferation of entertainment industry had posed new challenges for him. Not only there were more entertainment alternatives to watching movie in theatre, but also additional sources of revenue available to movie producers reducing their dependence on box office performance of movies. Added to it was the basic uncontrollable factor for exhibitors; the content itself. While multiplexes were in touch with the ultimate consumer, they had little control over their actual offering, leaving them space to experiment with ancillary services only.

As Sen returned to his office, he had more figures to ponder over. Acquisition of Theatre E was in its final stages and if the deal went through, refurbishment would be completed in about three months. Being a premium property no stones were left unturned in spend on interiors, F&B counters, parking space, etc. Of the total 40,000 square feet area, only about 23,000 square feet was to be utilized as actual auditorium space. Other specifics for the location and multiplex operations that he had in his file were:

Capital Cost	~Rs. 65,000/ seat
Area Required	~30 sq. ft./ seat
Minimum unutilised area	8-9,000 sq. ft /screen
Rent	Rs. 25/ sq. ft., 7% escalation every 3 years

Competition in 5 km radius

Total population in catchment area	100 million
Multiplexes	2 with 7 screens
Single Screen Theatres	2

Average distribution of costs and revenue streams based on all Picture Perfect's multiplexes in the past one year was:

Breakup of Total Operating Costs	% of Total	Nature
Distributor's Share	30%	Direct
Entertainment Tax	17%	Direct
Average Rentals	12%	Indirect

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Maintenance and Utilities	10%	Indirect
Electricity	8%	Indirect
Employee Cost	7%	Indirect
Advertising & Marketing	6%	Indirect
F&B Cost	5%	Direct
Other Administrative Expenses	5%	Indirect

Revenue Streams	% contribution to total revenue
Ticket Price	90%
F&B	24-25% of ticket price
Advertising & Rental Revenue	7%
Other Services - Gaming, Parking (if property is owned), etc.	3%

Also lying on Sen's table was a recent study by FICCI-PwC on Indian Media and Entertainment Industry, which estimated that the Indian film industry is projected to grow at a Compounded Annual Growth Rate (CAGR) of 13% over the next five years, reaching to Rs. 176 billion in 2012 from Rs. 96 billion in 2007, nearly double its present size.

Estimate (Rs. billion)	Size	2005	2006	2007E	2008P	2009P	2010P	2011P	2012P	CAGR (2008-12)
Film Industry		68	85	96	111	124	141	165	176	13%
Box office Domestic	-	53	64	72	83	91	102	119	123	11%
Box office Overseas	-	6	7	9	10	13	15	18	20	19%
Home Video		4	7	8	8	9	11	13	15	15%
Ancillary revenues		6	7	9	10	12	13	15	18	16%

E-Tax Exemption

In order to promote development of new multiplexes, many state governments allowed entertainment tax exemption for new multiplex properties. Refurbishments were however, not included under this. But refurbished properties had the advantage of already having most licenses in place from state and municipal authorities and the benefit of an existing patronage.

E-Tax exemption in Sen's region:

Year of Operation	Exemption
Year 1	100%

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Year 2	100%
Year 3	100%
Year 4	75%
Year 5	50%

Entertainment Tax Rate	% of Gross Ticket Price
Tier I City	30%
Tier II City	27%

Case analysis

- Should Sen and his company go for acquisition of management control of Theatre E? Please support your answer based on a clear operational strategy that can be adopted for new Multiplex E. You may make reasonable assumptions in addition to the data presented above.
- In case *Picture Perfect* decides to open Multiplex E, what should be the average ticket prices and other services offered as well as initial brand building and promotional activities that Sen should undertake
- What suggestions you can give for improving occupancy and revenues of other properties in Sen's region?

Disclaimer

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