

# Princes Theatre: Cinema Proposal

## Business Plan 2013

*Tendring*  
District Council



# Purpose

This business plan sets out the projected outcomes of the proposal to incorporate a cinema facility at the Princes Theatre, together with a plan of how this will be achieved

# Background

The Princes Theatre has been a key tourism facility and he focal point of the local entertainment scene since 1931.

It serves as:

- A theatre, providing high quality shows and entertainment
- A civic venue for Council meetings
- A venue for private hire

The only remaining cinema in Clacton—'Flicks' has recently closed down, leaving a gap in the market for such a facility in the catchment area. As the Princes Theatre has the infrastructure and capacity to incorporate a cinema facility, there is a clear opportunity to consider extending the offer to include cinematic performances .

A cinema facility would be expected of a seaside tourism destination, and would add value to the offer as a wet weather facility.



# Summary of facts

The detail in this plan demonstrates how the Council could ensure that a cinema facility within the Princes Theatre could be financially viable, and provide a quality community facility:

|                      |  |
|----------------------|--|
| <b>Business Need</b> | Due to the closure of the 'Flicks' cinema in Clacton, there is no longer a cinema facility serving the town and a catchment of over 60,000 people.   |
| <b>Outcomes</b>      | <p>To provide an opportunity to pay back the capital costs and improve the financial outlook of the Princes Theatre.</p> <p>To provide a community cinema for Clacton on Sea and the surrounding area.</p> <p>To enhance the tourism offer for Clacton on Sea and the wider Tendring District, as a cinema facility would be a visitor attraction expected of a seaside tourist destination.</p> <p>To maximise use of this key Council asset.</p> |
| <b>Finances</b>      | <p>The direct cost of the Princes Theatre in 2012/13 is estimated to be £8,200.</p> <p>Any net surplus accrued through a cinema facility would drive down the direct cost and potentially result in an operating profit. As many of the costs associated with the Theatre are 'fixed', such as management time and business rates, this would maximise use of this key asset.</p>  |

# Why a Cinema?

Since the closure of 'Flicks' at the end of 2011, there has been no cinema facility in Clacton on Sea. This proposal has been brought forward to provide a community service which will contribute to the local tourism offer.

## Tourism Need

A cinema facility would be the expectation of visitors to a seaside tourist destination - particularly during wet weather periods.

## Community Need

Without a cinema serving the local population, local people currently need to travel to Colchester, Ipswich or Harwich to watch the latest movies. A cinema facility is also likely to generate added value for local restaurants and food establishments, both prior to and after each performance.

## Business Need

Average attendances achieve 150 per showing, would ensure a return on the capital outlay within 5 years.

## Evidence

The Cinema industry has continued to grow throughout the economic downturn. Nationally, total cinema admissions in 2012 ended on 172.5m, which was an increase of 0.5% on the previous year.

# How will it work?

- It is proposed that fees and charges are kept low to reflect local market forces, and compete with multiplex offerings in Ipswich and Colchester. The proposed prices (outlined on the next page) are similar to those at the Electric Palace, Harwich.
- A separate marketing plan will be devised for this facility, but movie showings will be incorporated into the Theatre brochure at a nominal cost. A weekly information advert will also be displayed in the local press, as expected from a Cinema facility.
- The business plan is based on an average of 6 showings per month, with an average of 150 attendances per showing.
- It is proposed that the two biggest movies of the month are shown, with prime time performances on a Friday evening, Saturday afternoon and Saturday where the Theatre programme allows. This will be a flexible arrangement and depend on which film is being show and how successful it is expected to be.
- At a recent Cabinet 'on the road' meeting, members of the public suggested that public transport out of Clacton in the evening is sporadic. It is therefore planned to ensure matinee performances are held regularly to address this issue.
- Films are hired for public showing from a distributor, with a split of the gross income of approximately 54%/46%, the former figure being retained by the Council.
- Many of the overheads for the Princes Theatre are fixed costs, and as such this proposal maximises use of the Theatre as an asset.

# Finances—Capital Outlay

| Item                         | Units | Cost Per Unit (£) | Total Cost (£)   |
|------------------------------|-------|-------------------|------------------|
| Projector                    | 1     | 32,000.00         | 32,000.00        |
| Surround sound speakers      | 10    | 150.00            | 1,500.00         |
| Amplifiers                   | 2     | 600.00            | 1,200.00         |
| Audio Processor              | 1     | 2,100.00          | 2,100.00         |
| Rack and Wiring              | 1     | 600.00            | 600.00           |
| Power Supply                 | 1     | 426.00            | 426.00           |
| Fire rated Projection Port   | 1     | 400.00            | 400.00           |
| Air Movement                 | 1     | 200.00            | 200.00           |
| Infra Red Hearing Assistance | 1     | 1,400.00          | 1,400.00         |
| Head phones for above        | 10    | 70.00             | 700.00           |
| Building work in loft space  |       | 9,500.00          | 9,500.00         |
| <b>Total Cost</b>            |       |                   | <b>50,026.00</b> |

## Notes

1. These costs are based on budget costs, provided by a leading supplier to the industry
2. The building work in the loft space, would be to accommodate the projection equipment and ensure the area is structurally sound for a manned area.
3. This equipment is expected to have a shelf life of at least 10-15 years. It is 'future proof' and a 3D system could be bolted on to the digital projector for a further £10k if required going forward.



## Finances—Revenue Implications

The following table sets out income and expenditure projections, based on a average audience of 150 per performance.

| Income                   | 2013/14      | 2014/15      | 2015/16      | 2016/17      | 2017/18      | Total         |
|--------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Primary Income           | 39656        | 52875        | 52875        | 52875        | 52875        | 251156        |
| Confectionary            | 4050         | 5400         | 5400         | 5400         | 5400         | 25650         |
| Licensed Bar             | 4050         | 5400         | 5400         | 5400         | 5400         | 25650         |
| <b>Total Income</b>      | <b>47756</b> | <b>63675</b> | <b>63675</b> | <b>63675</b> | <b>63675</b> | <b>302456</b> |
| <b>Expenditure</b>       |              |              |              |              |              |               |
| Salaries                 | 8478         | 11304        | 11304        | 11304        | 11304        | 53694         |
| Maintenance              | 0            | 1000         | 1000         | 1000         | 1000         | 4000          |
| Marketing                | 5000         | 5000         | 5000         | 5000         | 5000         | 25000         |
| Credit card fees         | 450          | 600          | 600          | 600          | 600          | 2850          |
| Secondary Spend Stock    | 4500         | 4500         | 4500         | 4500         | 4500         | 22500         |
| Licenses                 | 397          | 529          | 529          | 529          | 529          | 2512          |
| Films                    | 21890        | 29187        | 29187        | 29187        | 29187        | 138638        |
| <b>Total Expenditure</b> | <b>40715</b> | <b>52120</b> | <b>52120</b> | <b>52120</b> | <b>52120</b> | <b>249194</b> |
| <b>Profit/Loss</b>       | <b>7041</b>  | <b>11555</b> | <b>11555</b> | <b>11555</b> | <b>11555</b> | <b>53262</b>  |

### Notes

1. The figures for 2013/14 are based on the cinema opening in July, to allow the procurement and building works to take place.
2. These budget figures are in addition to the current Princes Theatre income and expenditure.
3. This business plan is based on 6 performances per month, with an average audience of 150 per show (less than 20% occupancy).
4. The confectionary and licensed bar income is based on an income of 50p per head for each. This is the approximate income accrued from secondary sales, during the recent cinema evening at the Princes Theatre.
5. The payment for films is based on paying 46% of the gross income received to the distributor - which is the maximum likely payment
6. All income has been calculated on the net figures.

## Proposed Fees and Charges (with comparisons)

|                       | Princes Theatre | Electric Palace, Harwich* | Colchester | Ipswich |
|-----------------------|-----------------|---------------------------|------------|---------|
| <b>Adult</b>          | £6.25           | £7                        | £11.85     | £9.10   |
| <b>Children</b>       | £5.50           | £4                        | £8.45      | £6.20   |
| <b>Senior Citizen</b> | £5.50           | £6                        | £8.85      | £6.20   |

\* A discount of £1 is applicable with the purchase of an annual membership at the Electric Palace

# SENSITIVITY ANALYSIS

The following table illustrates how the payback period and profitability would alter, depending on the average number of attendances per showing.

| Average Attendance         | Payback Period    | Notes   |
|----------------------------|-------------------|---|
| <b>100 (13% occupancy)</b> | N/A               | Under the circumstances that attendances fell below an average of 104 per showing, an operating loss would be incurred. If occupancy remained around this level (or lower) during the 1st year, there would be the option to increase fees and charges to mitigate any loss.<br><br><b>Exit Strategy</b><br>In the scenario that the cinema proposition fails due to low attendances, the equipment could be sold for second hand value to mitigate any loss on the capital outlay. |
| <b>150 (19% occupancy)</b> | 4 years, 4 months | Based on the attendance figures in the business plan, there would be a return on the capital investment within five calendar years.   |
| <b>200 (25% occupancy)</b> | 2 years, 3 months | Any increase on these figures, would clearly result in a quicker return on a investment being reduced.  |

This initiative contributes to the following Council priorities:

**“Build a thriving local tourism industry”**

**“Provide affordable excellence”**



# Further Opportunities

In addition to the income streams referred to in this business plan, there are a number of other income generating ideas which will also be explored.

| Opportunity   | Further Information  |
|---|--|
| Themed nights   | There is potential to develop the programme to include Arts Films, Saturday morning cinema and themed nights with food and drink. The Arts and Lits organisation who utilise the Theatre as their home, have approximately 850 members, providing a ready made market for some events. |
| There will be increased opportunity for secondary spend | There will be increased opportunities to sell additional confectionary such as popcorn and hot snacks, e.g. hot dogs to a cinema audience. There is also the possibility of selling film related merchandise.  |
| Sporting and televised events                           | There would be an opportunity to screen live sporting and other televised events, such as major tournaments on the big screen.   |
| New audience  | The cinema facility provides an opportunity to open the Theatre to a new audience.   |
| Maximising private hire                                 | Due to the new projection equipment and sound system, the additional facilities at the Theatre will be more attractive to hirers, particularly the conference market.  |
| New sound system  | The new equipment, will also improve the sound system for the Theatre and will be available for other shows and private hire.  |
| Advertising   | There is also potential to display advertisements prior to performances to generate additional income streams.   |



# CONCLUSIONS

- There appears to be a sound business case to extend the Theatre operation, to include a Cinema facility;
- Based on a modest average attendance of 150 customers attending 6 movie showings per month, the capital outlay will be paid back within 4 ½ calendar years;
- A Cinema would fill the void left by the now closed '*Flicks*' facility and add value to the Tourism offer in the town. Other local businesses are also likely to benefit from such a facility, such as restaurants and fast food outlets.
- There are a number of additional opportunities to be explored for income generation, which would potentially add value to the business case.





## Appendix A - Project Risks

Effective risk management is important in the delivery of this project. Detailed below are the major risks that are considered to impact on this project and what plans the Council would put in place to manage these risks.

Each risk identified has been rated on a scale of 1 - 5 for how likely it is to be a problem (1 = very unlikely, 5 = almost certain). Also we have rated each risk on a scale of 1 - 5 according to how serious the problem would be (1 = low impact, 5 = critical impact).

| Risk   | Likelihood             | Impact                      | Mitigating Controls   | Responsible Officer                               | Managed Likelihood     | Managed Impact              |
|--|------------------------|-----------------------------|---|---|------------------------|-----------------------------|
| <b>Capacity</b> - There is a risk that there is insufficient officer capacity available to deliver the additional income identified in this business plan. | <b>3</b><br>(Possible) | <b>3</b><br>(Medium Impact) | The procurement and organisation required to add a cinema facility at the Theatre has been researched and evaluated. As such, it is not anticipated that this will incur a significant impact on management time. Enough staffing resource with accompanying cost has been built into the business plan to accommodate cinema performances.   | Mike Carran                                       | <b>2</b><br>(Unlikely) | <b>2</b><br>(Low Impact)    |
| <b>Economic Climate</b> —lower attendances than anticipated.   | <b>3</b><br>(Possible) | <b>4</b><br>(High Impact)   | The business plan is based on an average of 150 attendances per showing, which is considered to be modest. If attendances average an amount which is lower than will provide a return on the investment, fees and charges can be increased to mitigate.<br><br>A Facebook group set up after the closure of the Flix Cinema has attracted over 800 local people.<br><br>In the scenario that the cinema proposition fails due to low attendances, the equipment could be sold for second hand value to mitigate any loss on the capital outlay. | Mike Carran /Kai Aberdeen/<br>Melissa Diplock     | <b>2</b><br>(Unlikely) | <b>4</b><br>(Medium Impact) |
| <b>Competition</b>   | <b>3</b><br>(Possible) | <b>4</b><br>(High Impact)   | Fees and charges have been set at a level consistent with that of a budget cinema; which is significantly less than the cost of national brands.<br><br>In a price sensitive area, it is considered likely that there will be   | Mike Carran /<br>Kai Aberdeen/<br>Melissa Diplock | <b>3</b><br>(Possible) | <b>3</b><br>(Medium Impact) |