Business Plans: planning your business

Media Business School MEGA 2013

„Drive the business, or it will drive thee" - Benjamin Franklin

A few opening remarks:

I have first thought about the term „business plan" back in 1995 when I was working for the European Script Fund in London, at the time an „agency" commissioned by the European Union's MEDIA Programme; we had just invented some sort of revolutionary funding scheme that hadn't existed before: the so- called „slate funding", where we would be giving producers relatively large amounts of money for the development of several projects. - That was the point where we thought we'd better have a closer eye on which companies would be eligible for such scheme and how we could possibly monitor the flow of our money and the potential recoupment. - Asking independent producers in Europe for a business plan sounded like a a completely mad idea and that is exactly how those producers reacted. Business planning in the film business – would never ever go together.

We then turned the table and invented a second rather revolutionary scheme: the „ company loan", i.e. an additional loan that could be used by the producers to take measures to strengthen their infrastructure, to hire additional personel, in short: to make their business more sustainable.

And how do you present such business ideas ? There is no other way but to write them down in the form of a business plan: the birthday of introducing the term into the world of independent film making. And quite successfully: suddenly our producers developed a good appetite for both the money and the idea behind it.

In my later life as a banker, I read and assessed hundreds of business plans, from large US independents to European majors and smaller independents, producers, distributors, sales companies etc. I also read a lot of books, articles about the writing of business plans, and always came back to one: Vaughan Evans' „How to Write a Business Plan", published by the Financial Times. I have used this particular book and based my entire presentation on it - which allows you to use it as *the* reference book. It may safe you precious time to plough through dozens over others. Which may of course be equally good or even better….

Munich, June 2013 Bernie Stampfer

FROM IDEA TO MODEL

WHAT'S DRIVING THE FILM INDUSTRY ?

A brief introduction

Tinseltown's shifting power

- The economics of the film industry are changing. Profits are down, even though Hollywood is making splashier films for new, fast-growing markets
- Television, once the unglamorous sister, is enjoying record earnings and unprecedented critical acclaim
- The business model within film is broken. Between 2007 and 2011, pre-tax profits of the five studios fell by around 40%. The studios account for less than 10% of their parent companies' profits today, and by 2020 their share will decline to only around 5%. That is because the "big six" studios are growing more slowly than TV.
- In 2012 Time Warner grossed $12 billion from film, up 20% from 2002. That compares with a more than 84% rise in the company's TV-network revenues during the period, to $14.2 billion
- TV is relatively stable and currently lucrative. TV networks earn money from advertising and from the fees that cable and satellite operators pay to carry their programmes. These fees are growing by about 7% annually. TV is one of the cheapest forms of entertainment

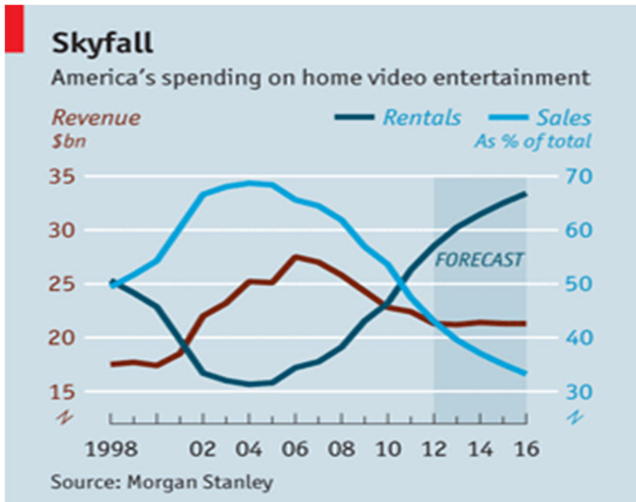
Tinseltown’s shifting power

- In contrast, film revenues are volatile. In 2011 American cinemas sold 1.28 billion tickets, the smallest number since 1995. Last year, ticket sales rose back to 1.36 billion and box-office revenues to a record $10.8 billion, thanks to blockbusters like “The Avengers”.
- Film-going in America is not a growth business, especially now that people have so many media to distract them at home.
- The share of Americans who attend a cinema at least once a month declined from 30% in 2000 to 10% in 2011
- Analysts expect revenue from American cinemas to be flat for the foreseeable future. Even people in Hollywood admit that America is a “mature” film market
- Hollywood’s movie studios are confronting three long-term problems:

  1. less lucrative home-entertainment divisions
  2. the rising cost of making films
  3. the terms they get in fast-growing new markets.

Tinseltown's shifting power

- video-streaming services, like Netflix, have exploded in popularity, but are not as lucrative as outright sales. "People are still watching the same amount of movies that they did a few years ago, they're just spending $6 billion less a year to do it."
- Box-office revenues outside America are growing two and a half times as fast as they are domestically. China, has overtaken Japan to become the world's second-largest movie market.
- But: in America the big studios keep around **half** of box-office receipts. In China studios keep only a **quarter**. Moreover, no more than 34 foreign films may be released in China each year.
- Second biggest problem: piracy
- But Netflix and other firms are changing the home-entertainment business profoundly—and studios are scrambling to keep up
- 2012 was the first in years that home-entertainment revenues did not decline. Now studios want to increase them. Their best bet is to beef up digital sales, which offer fat margins.



Tinseltown's shifting power

- Some Studios are flirting with models to get rid of the theatrical window altogether.
- Consumers to watch movies at home for a higher price rather than trek to the cinema. Cinemas are not enthusiastic nor are most studios. "Movies are just too expensive for us to collapse the windows and effectively eliminate a separate source of revenue,"
- Last year Lionsgate made ARBITRAGE available in theatres and on "video-on-demand" at the same time. It earned three times as much as it would have done otherwise, because it "found two different audiences".
- But if one big studio did this, cinemas could fight back and refuse to show that studio's movies. Few want to risk it.

Source: The Economist 2/2013

Europe, America, Asia:

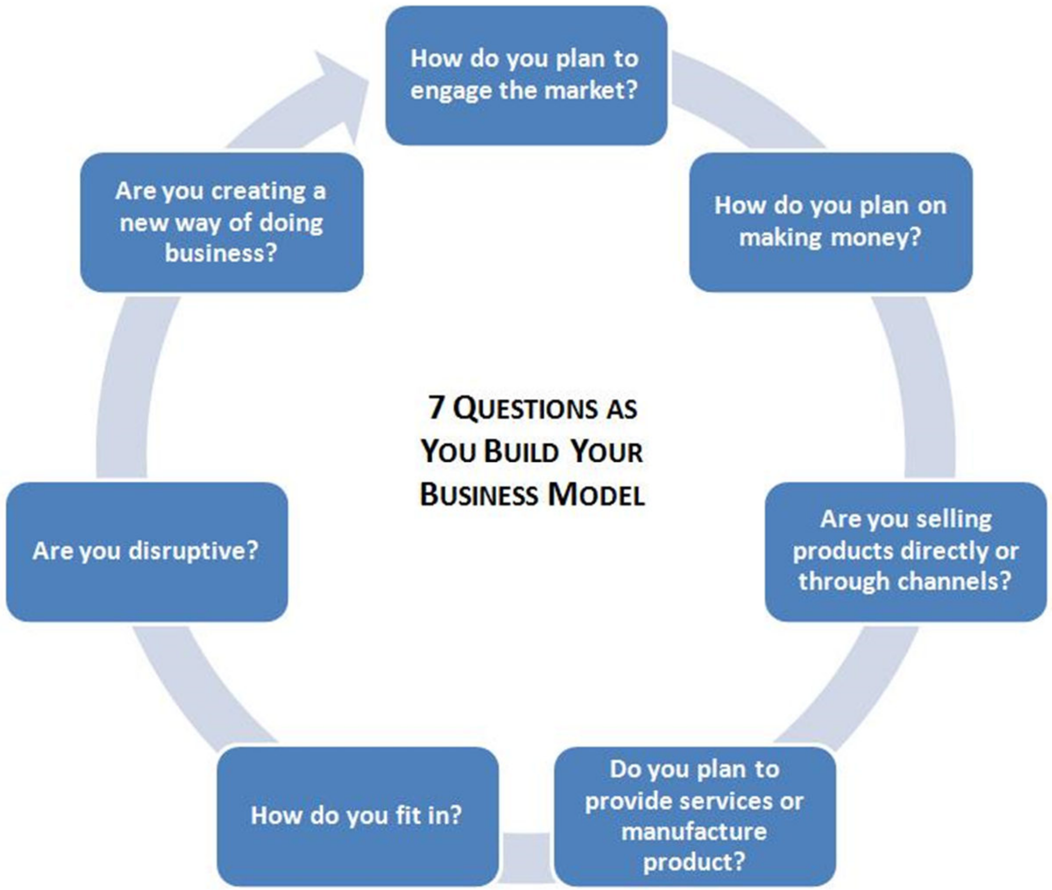
Wherever you are, wherever you operate:

What do you know ?

Where do you fit in ?

And: HOW ?

Where it all starts: no plan without a model



common factors of successful film companies around the world

- The ability to share in downstream revenues generated by successful content
- Diversified revenue streams across a number of activities, each providing different risk/return parameters
- On-going relationships with successful talent
- Strong, entrepreneurial leadership
- Strong relationships with international business partners and networks, especially major, corporate players
- Working within a public policy environment system that is supportive, reliable, predictable and consistent

- **Think company not project:** or better:
- **think company as well as project**

Source: Olsberg SPI Building sustainable film businesses

FROM IDEA TO MODEL

FROM MODEL TO PLAN

Contents of a Business Plan

<u>Chapters</u>

The 7 C‘s

A good business plan is

(1) clear

(2) crisp

(3) concise

(4) consistent

(5) coherent

(6) credible

and most importantly

(7) convincing

The Purposes of a business plan

A business plan for

- a start- up
- Raising equity finance
- Raising debt finance
- Board approval
- A joint- venture partnership
- The sale of the company
- Versus a project plan (to complement)
- (as) a managerial tool

- Film specific: attract talent, attract agencies, attract distribution partners et al

The Purposes of a business plan

Purpose	Key issues
Start- up	High level of uncertainty, missing track- record, untested business model
Equity finance	RoI return of investment, focus on risk and opportunities, exit
Debt finance	Collateral, security, interest, second way out, abstract, cost of operations
Board approval	Board shall be treated like an equity investor and/ or debt provider
Joint-venture	Investment driven, - your partner is investing in your biz and vice versa
Sale	Principle:" as little equity – as much debt as possible" i.e. ist debt <u>and</u> equity driven
(versus) Project plan	Project Plan: isolates costs and revenue streams away from company
Managerial tool	Self- mirroring progress, show- case for references, network- relevance

Getting started: Prepare the essentials

Do the research

Collect Data:

- market demand
- market size
- market drivers
- growth trends
- competitors and peers
- customer survey
- if project driven: comparables

Beware: quality of data is key

Getting started: Prepare the essentials

Get organised:

The planning team: team leader and specialists > legal/tax – markets – financials – operations – business affairs

Timetable set a fix timetable (one month ?)

Content (the content table of the bis plan)

Appendices (see chapter app. below)

Length suggested: 35 pages max (excl. appendices)

Drafting process team leader, team supported, cross reading, proof reading,

Chapter 1: Executive Summary

leave this chapter till the very end

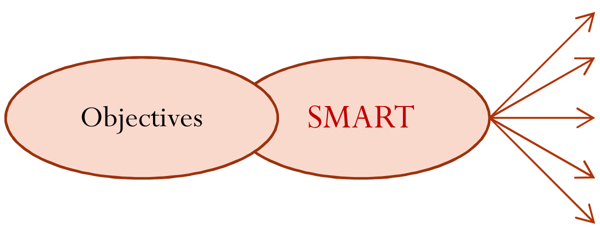
when you will know

what the summary is ….

Chapter 2: The Business

1. The Opener: the essence of your business
   - your name(s), company name, place, legal form, ownership, etc
   - key historical developments (people/company)
   - what products and services you focus on
   - main customer groups (film: your financiers !)
   - key assets, key PoS

2. Goals and Objectives: goals and objectives, targets, set out in numbers !



Specific		your market share target
Measurable	market data	
Attainable		customer research positive
Relevant		corporate progress p.a.
Tíme- limited		meet time table

Chapter 2: The Business cont.

3. Strategy: set out company's competitive advantage – and what strategy you deploy to sustain it ! (in greater detail, chapter 5)

4. Resources business infrastructure (over time), facilities, essential network contacts, key people,

5. Basic Financials t/o turn over, operating margins, aggregate P/L, (leave balance sheet and C/F data for chapter 7) – if start-up: cost incurred to date

6. Business mix distinct products to distinct customers – each of them a „segment" - diversification of segments > create weighted pie chart

if start- up: categorise your products/ services, or: stick to one product for one customer group > „one business segement"

Your product must *benefit* your customer i.e. show what the *benefit* is ! The „unmet needs" !

Chapter 3: Market Demand

The analysis of market demand is **the crux** of any business plan

1. Market size: define the market size which is relevant for <u>your</u> operations. Collect data, <u>buy data,</u> Your t/o in a segment compared with competitors.

2. Market growth: backers prefer investment in growth markets, analyse forecasts, trends

   > Assess past growth
   > Assess past drivers of growth
   > Assess changes in drivers
   > Forecast future growth

3. Market demand: risks and opportunities

   > what could make thing worse, what could make things better ?

Chapter 3: Market Demand cont.

3. Market demand: risks and opportunities

> identify key **risk** factors: who likely are they to take place: low – medium - high

> if they occur, how big will the impact be: low – medium - high

> identify key **opportunit**y factors (accordingly)

Chapter 4: Competition

Respect the competition ! Give competitors the the space they merit in your plan

1. Your competitors: analyse your competitors by

> Sales: in each segment, calculate market share

> Sales growth over the last three years

> operation and/ or net profit margin

> ownership, assess financial depth and backing

> segments addressed, now and plans for the future, new products, expansion plans

> physical assets (if any) e.g. studios, post- prod. studios, equipment

> IP‘s, libraries, ancillary (music, print, picture archive etc)

> strategy, growth plans, consolidator - acquisition/merger target ?

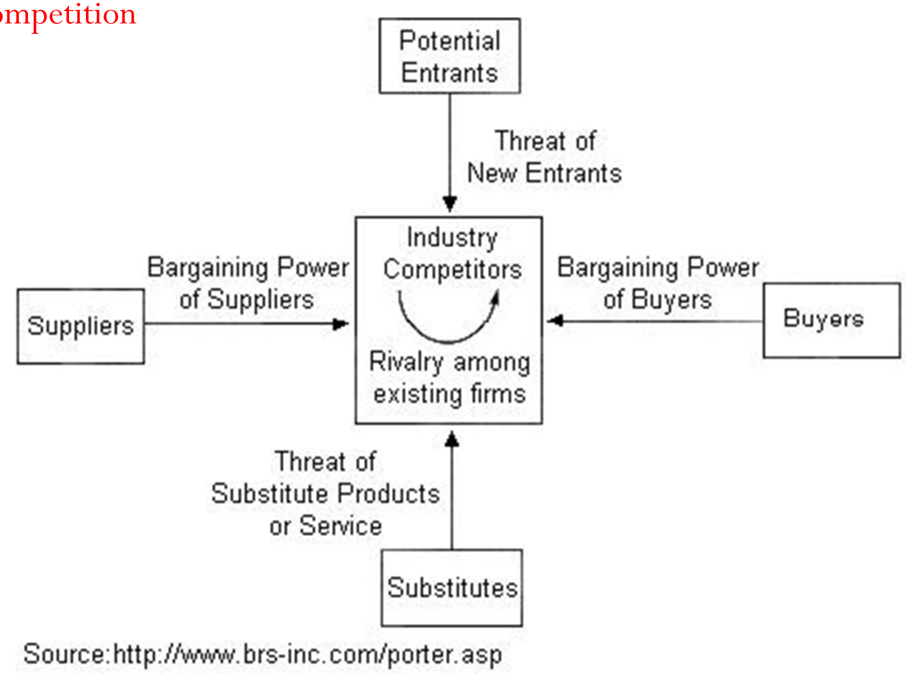
> positioning in the market, USPs, pricing, IP‘s, personel…

Categorise competitors: integrated conglomerates, large, mid, small, one business model versus diversified etc.

Chapter 4: Competition cont.

2. Competitive intensity

Five forces shaping competition



Source: Michael Porter: Competitive Strategy (1980)

Chapter 4: Competition cont.

1. Internal rivalry:

i. The number of players: the more numerous the players, the tougher competition

ii. Market demand growth: the slower the market is growing, the tougher competition

iii. Supply: possible over-supply in the film biz, high degree of rivalry, dampener on prices

2. External pressures

i. External bodies (governements, public institutions) have great influence (subsidies, tax incentives, grants, et al)

ii. Trade unions (union agreements e.g. SAG, etc)

iii. Monopolistic dependencies: e.g. from broadcasters

3. Threat of new entrants

i. The lower the barriers to entry to a market, the tougher competition

ii. Barriers can be: technology, operations, people, IP‘s (!), talent (!)

iii. Q‘s: how serious is threat of new entrants ? High, medium, low ? Threat increasing in the future ? Or not ?

Chapter 4: Competition cont.

4. Ease of substitution

i. The easier for customers to use substitute product or service, the tougher competition
ii. How big is the threat to losing share to competitors ? High, medium, low ?
iii. Threat getting bigger over time ? Why ?

5. Customer power

i. The more bargaining power your customers have over you, the tougher competition
ii. The more unique your assets, the higher your bargaining power
iii. What are unique assets in the film industry ? What are your assets ?

6. Supplier power

i. The more bargaining power suppliers have over producers or service providers, the tougher the competition
ii. Key suppliers in the film industry: talent agencies. (analyse their power position)

Chapter 4: Competition cont.

7. Overall competitive intensity

i. Summarize main forces (# 1 – 6) and measure overall competitive intensity in the film/ TV/ games/ entertainment industry
ii. Analyse past, presence and future
iii. Position yourself/ your business
iv. Under heavy competition: <u>consider competitive response</u> !

WHAT ARE THE BIG RISKS ?

WHAT ARE THE BIG OPPORTUNITIES ?

Chapter 5: Strategy

Headline: What is your strategy for strengthening competitiveness in your key business segments ?

Strategy how a company deploys ist resources to gain a **sustainable** advantage over competion

Resources your assets, your people, your IP's, your talent, your cash, your borrowing capacity…

CPC Customer Purchasing Criteria, identify and weight

!

„what customers need from their suppliers" (i.e. what Warners need from you…)

KSF Key Success Factors identify and weight

„what you need to do to satisfy the customer CPC"

Forget the **SWOT** theory:

- „Is a dreadful construct. Is just a jumble of items, ungraded for importance, relevance, probability or impact, muddling up business opportunities with market opportunities, business risks with market risks and coming to no conclusion whatsover; it is a mess" (Vaughan Evans, FT, Writing a Business Plan)

Chapter 5: Strategy cont.

Imagine that your venture is a new theatre in Copenhagen called The Cosmo that shows alternative and international films. A likely set of direct competitors, substitutes and alternatives are shown in the table below.

User's purpose	Entertain my date for the evening	i.e. the need, want or should - the user is trying to satisfy
Your offering	The Cosmo, a new small theatre showing alternative and international films in Copenhagen	i.e. the commodity, good, service or experience you are offering
Direct competitors' offerings	Other small theatres showing alternative and international films in Copenhagen 1. The Uptown 2. Globe Cinema 3. The Plaza	i.e. a venture in the same industry whose offering has the same form (similar value curve) and same core function (showing alternative films, in this example)
Substitute offerings	1. Bigger cinematic theatres showing Hollywood films, like those listed here in Copenhagen 2. Theatres putting on plays 3. Stand-up comedy theatres	i.e. a venture, often in a different industry, whose offering has a different form (significantly different value curve) but still has the same or similar core function (showing films or plays, in this example)
Alternatives	1. Movie rental stores 2. Restaurants 3. House parties 4. Etc...	i.e. an option or offering with a different form (significantly different value curve) and different functionality (no longer a place that shows films or plays, in this case), but that still meets the same overall purpose for the user (entertaining my date for the evening, in this example)

Chapter 5: Strategy cont.

Porter's Generic Strategies Model

Target Scope	*Advantage*	
	Low Cost	**Product Uniqueness**
Broad (Industry Wide)	**Cost Leadership Strategy**	**Differentiation Strategy**
Narrow (Market Segment)	**Focus Strategy** (low cost)	**Focus Strategy** (differentiation)

- **Cost leadership** can be used for a low cost producer within a mass market which offers a consistent level of quality. A good example of this would be a bottled water company, where the raw material and products are very much the same for all producers. Only by having very efficient production and distribution processes can they make a profit and survive competitor threats.
- **Differentiation** is used when offering something unique that is perceived by the consumer to be better or different to other products. A meaningful point of difference could be a better taste, due to the ingredients or production process, or healthier, such as lower fat, salt or sugar.
- **Differentiation** is most likely to be the best strategy for smaller producers, as a clear point of difference must be offered relative to major brands to secure sales in a highly competitive market. Providing consumers recognise and value the point of difference, a differentiation strategy can lead to premium pricing by the producer. An example of this would be a speciality cheese producer who can command a premium price for a distinctive and sought after cheese.
- A **Focus strategy** narrows in on a specific market segment and attempts to achieve a cost leadership and/or differentiation in that segment. For example, a cake producer may decide to focus on gluten free cakes to achieve a point of differences and will invest all their efforts and resources into that narrow market sector. By focusing their efforts, they become experts in their field, with a superior product development capability a knowledgeable sales team and more enjoyable products. They can develop significant competitive strengths which competitors will find it difficult or expensive to copy.
- This enables a business following a Focus strategy to charge higher prices without threat from competitors. Even so, such companies must still carry out competitor analysis to ensure competitors do not enter this profitable market sector.

Chapter 5: Strategy cont

Generic Strategy model and normal market economy rules are not always applicable to the film industry:

1. Film is not an industrial product, it‘s a prototype
2. „every film produced is a new start- up situation…“
3. no consistent or uniform pricing model applicable
4. End user (moviegoer, TV -watcher, VoD downloader) pays a fix price regardless of cost of goods (COG)
5. High portion of subsidies and other state intervention distort „normal“ cost ./. financing models
6. Revenues are largely hit- driven i.e. there is no guaranteed market
7. Hits largely depend on availability of „stars“
8. Consumer appetite not predictable, changing, erratic, even depends on weather reports…

Chapter 5: Strategy cont

Strategy in a start- up:

- Your competitive position is in the future rather than the present tense

Remember:

Strategy is, how a company deploys ist scarce resources to gain a **sustainable** advantage over competion

There are few but some ways you can try to sustain your competitive advantage:

- Retain top writer, top director („X- Films, Berlin“)
- Option/buy unique literary rights („Yellow Bird, Mankell“)
- Follow talent, have talent follow you („Winding-Refn,Lene Borglum)
- Combine production with distribution, control value chain (Studio Canal, Constantin …)
- Differentiate business across platforms („Resident Evil“)

Chapter 5: Strategy cont

The 10 commandments of competitive strategies

1. Your understanding of CPC (customer purchasing criteria)
2. Your underanding of KSF (key success factors) likewise
3. Your continuous assessment of competitive position
4. How you deplay your scarce resources
5. Continuous assessement of the value of those assets
6. Steps to be taken to strengthen competitive position over time
7. Steps to be taken to build value in the company
8. Steps to be taken to answer to technological change
9. Steps to be taken to answer changes in the value chain
10. Access to talent, access to IPs

Chapter 6:   Resources

1) Management

i. Investors invest in people and expect management to execute

ii. Management must cover a) creative b) financial c) legal and d) operational aspects of the business. How will you have the right team withn the right experience, qualifications and skills ?

iii. Provide info on managers per C.V., experience, achievements against specific objectives

2) Marketing

Jerome McCarthy‘s „ Four components of the marketing mix – the 4 P‘s“

Product – **P**lace – **P**ricing – **P**romotion

- **P**roduct: show how product development is oriented to meet future needs, also: to meet customer‘s needs
- **P**lace: show which distribution channels are of greatest importance to your firm and product
- **P**rice: how is your firm‘s price (budget) positioning ? Is pricing aligned with strategy ?
- **P**romotion: main ways you are promiting your firm, your products ?

Marketing is the lifeblood of a start- up. If customers don‘t know you exist, you‘ll have no custom.

Chapter 6: Resources cont.

3. Operations and capital expenditure

Consider here the implications of your firm's strategy over the next (3) years on tthe following aspects of operation:

i. Supplies: normally the supply of raw materials in an industry. In the film biz: IT, software…
ii. Purchasing: at every stage in the value chain, the firm can be a purchaser of third party (outsourced) operations, logistics, sales, service. Analyse your capability to purchase at highest quality for best price
iii. Manufacture or service provision: show how you make your product or deliver your service. Your capability to build production teams, deal with all legal and financial issues, deliveries etc.
iv. Research and development: product development is key in the film industry. Show how you approach development; your script analysists, coverage, access to material, testing the markets etc. , access to writers, agencies etc etc etc
v. Distribution: how do you get your product to the market ?
vi. Technical support, storage, logistics
vii. Systems and IT

Chapter 6: Resources cont.

viii) Quality and financial control: show that you have sufficient control of quality of deliveries and finances. Your accounting system, your auditers, your collection agents, your completion bond guarantors… What contingency plans do you have if something goes wrong ?

ix) Regulatory compliance: show that your firm is on top of compliance issues: environment, health, safety, finance, treaties…

And:

Describe the big <u>Resource Risks</u> and <u>Opportunities</u> that may impact

on the achievability of your business plan !

Interim Exercise: think business:

- "Cannes 2013 brimmed with new titles. But with distributors increasingly forensic in their early purchasing decisions, activity was concentrated around a relatively small handful of buzz titles. Price-points, talent attachments and narrative appeal all factored into the decision-making. So too, the financial health of the packages on offer: the choicest projects are those that come with real assurances of getting made – which nowadays means a solid underpinning of equity backing."

Analyse this and translate into business plan lingo !

Chapter 7: Financials and forecast

This is the section where film producers stop and always say, that financials forecasts are not applicable to their business. This is often true, as they think „film“ and not „company“. - The (independent) film business certainly has ist particularities, hence the need to lay out your business in a plan is even more important. This applies to both existing companies and start- ups.

In this chapter, you will have to show how your strategy will translate into results – in terms of both key measurable parameters and … money.

1. You will have to forecast your sales growth in a way that is consistent with your Chapter 3 and 5.
2. You will have to forecast your profit margin consistent with Chapter 4 and 5
3. You'll translate these forecasts into full financial statements

As this presentation is about business planning and not about accounting, we only point out the key elements of this chapter:

Chapter 7: Financials and forecast

remember the „7 C's" and in particular: consistency, coherence, credibility

Main elements of this chapter:

1. Historic Financials: last three years financials (if start-up: opening fiancials)

i. Sales and profit margins
ii. Profit and loss accounts (P&L)
iii. Cash flow statement (C/F)
iv. Balance sheet
v. Explain anomalies if any

Chapter 7: Financials and forecast

2. Market- driven sales forecasts: an eight- step process

(1) Business segments: list each segment seperately

(2) Revenues: revenues achieved in these segments

(3) Market demand prospects: growth prospects of these segments

(4) Competitive position: your firm's position and prospect

(5) Likely revenue growth: can your firm keep pace, exceed or fall short of market demand, what is your liekely revenue growth rate in these segments ?

(6) Top- down revenues: what are the resultant revenues from the market- driven growth rate ?

(7) Bottom- up revenues: what are initiatives to grow sales (new products, new segments, increase marketing etc) – what are the likely incremental revenues from such new bottom-up initiatives in three years' time ?

(8) Total revenues: add up the market driven and bottom- up revenues = total forecast

Chapter 7: Financials and forecast

Drawing up a **market based sales forecast**

Bus. segment	Revenues $000	Mkt. Demand growth %/yr	Company compet. pos. (0-5)	Likely rev growth p.a. $000	Top-down revenues $000	Bottom-up revenues $000	Total revenues $000
	Latest year	Next 3 yrs	Next 3 yrs	Next 3 yrs	In 3 yrs	In 3 yrs	In 3 yrs
Feature films							
Docs							
TV drama							
Service							
Total							

Chapter 7: Financials and forecast

3. Drawing up a **competition based margin forecast**

Bus. segment	Revenues $000	Profit $000	Profit margin (%)	Compet. Intensity (low-med-high)	Planned profit margin (%)	Forecast profit $000	Planned profit improvement measures
	Latest year	Latest year	Latest year	Latest year + in 3 years	In 3 yrs	In 3 yrs	
Feature films							more
Docs							abandon
TV drama							flat
Service							reduce
Total							

Chapter 7: Financials and forecast

4. Full Financial Forecast

(I trust that this section will be covered by Luis Jimenez of Deloitte, suffice to list the main elements of this section).

i. forecasting the profit & loss account: where the sales will be framed in a market demand context and profit margins in an industry competition context

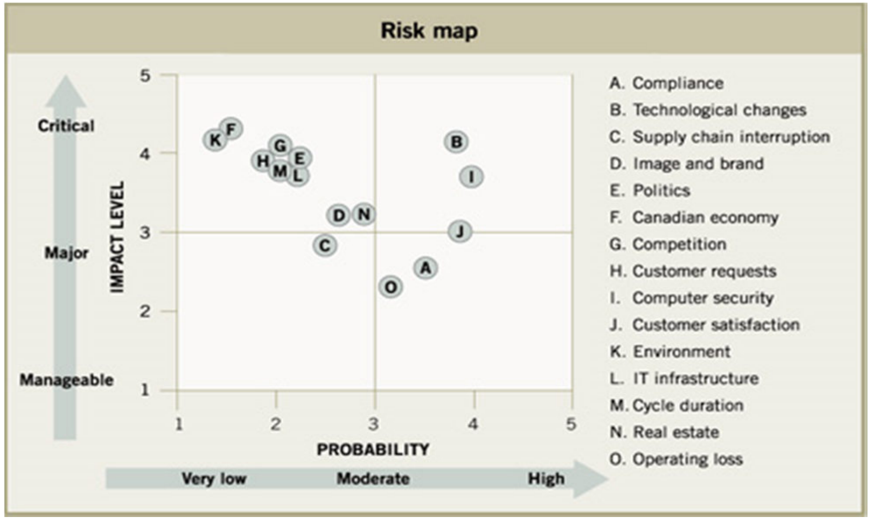
ii. forecasting the cash- flow statement: where the capital expenditure needed to drive the profit growth in the P&L account will be evident and framed in the analysis of resource development of Chapter 6

iii. forecasting the balance sheet: which will show how your forecast can be achieved with the assumed capital structure (the balance of debt and equity)

Chapter 8: Risk, opportunity and sensitivity

Identify risks *and* opportunities behind your forecasts. How likely are these risks and opportunities to occur ? And, if they did, what impact would they have ?

Measure likelyhood in low – medium – high and translate to the potential impact: low -. Medium – high



Define impact: assign specific, quantitative definitions

Then analyse impact on C/F and P/L

Show that your plan remain robust and able to withstand risk - show that opportunities surpass the risks ….

There are many ways how to set up charts or graphs , see also the FT source book, pages 157 and following

Chapter 9: Conclusion

Overall conclusion on why your business is worthy of backing (should be not more than 1 page)

- Market demand prospects: refer to your chapter 3
- Competition: refer to your chapter 4
- Strategy: chapter 5
- Resources: chapter 6
- Financials and forecasts: chapter 7
- Risk, opportunity and sensivity chapter 8

Essential tip: make your conclusion punchy. And remember the 7 C's

Then continue with the writing of „your EXECUTIVE SUMMARY, which will become the Chapter 1 of your business plan. The Executive Summary is an extended version of the conclusion, no more, no less". The length should be no more than 2 pages.

Many thanks for your attention

The source book to this presentation:

Vaughan Evans: Writing A Business Plan

Financial Times, Essential Guides

FT Publishing ISBN 978-0-273-75798-6

www.pearson-books.com

www.amamzon.com also as kindle download

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