

## Improving the business model and risk management of a small open-air theater

### The beginning

I have found my client in early February of 2020. They are a very small, but relatively long-established company, since they have been operating since 2004. Except for the summer period – when their operations are ongoing – they employ only 2 people full-time. They organize theater-plays and concerts during the weekends of July and August in a small Hungarian town in the countryside.

I worked for the company in 2015 summer, which I enjoyed very much. That is how I get to know the organizers and that is also how I noticed that their revenue from tick-sales is barely enough to cover their direct costs. This could be improved easily with a few minor changes and alterations. Therefore I offered them my services to help them in any way they like as part of my Capstone project. They accepted me both for the Finance and the TMI projects, since, as I mentioned that there are only two people in the company basically doing every task. They were also very open-minded to hear fresh ideas from someone from a different field and who is just finishing his studies, since their business isn't changing much from year to year. That fact can be seen both as a positive and negative thing: stability and constant quality, but not enough improvements.

### Work plan

Dealing with the situation caused by the pandemic was not part of the original plan. The owners however requested my assistance in trying to work out a solution for every possible scenario of the virus situation and the regulations related to that.

We begin to work together in early March, starting with the tasks we initially agreed on. Of course, when the virus hit, the priorities of the client quickly changed and our relationship evolved into a real consultancy-like relation, mostly focused on tackling the crisis.

First, let me introduce briefly the work done for the original plan and at the end add the scenarios we created as part of the risk management for the situation caused by the pandemic.

### The work done and its results

The client has been in partnership with an online sales portal for 4.5 years. This relationship has been lucrative for the client, since they didn't have to deal with selling their own tickets online. The situation and also the business environment however have changed a lot since 2015. For this

reason, I compared the current partner's old offer with their new offer we asked and received from them just as well with the offer of their main and larger competitor. Based on my comparison, I found that the competitor's offer is more favorable from both a financial perspective and if comparing the number of people the two sites can reach. There are also issues with the reporting capabilities of the current provider. It takes days to gather all the useful data from their platform.

As mentioned before, the company is quite small. However, its financial statements are quite interesting, since their legal entity is a "Non-profit Kft", and its organizers are not employed but contracted instead. I analyzed their last five closed financial years and offered my thoughts about the things I noticed and considered improvable.

During the analysis, I noticed that until 2016 the company invested its cash in bonds, which surprisingly resulted in an approximately 8% return yearly. Since their cash reserve grew significantly since, I recommended continuing to invest it into short-term investment opportunities offered by their current bank. My specific suggestion was a 65% government bond and a 35% share investment option, which has the potential to generate money in a relatively safe way instead of keeping the money on the bank account with literally zero increments.

One of the most important decisions a theater has to make is determining its ticket price(s). That will affect the number of people using the service and hence the revenue generated their core activity. The company has been using a one-type price system for 15 years, which they increase every 3-4 years only. Besides increasing it this season, I also suggested to differentiate their pricing and establish a four-type price system which is based on the location and the type of seats the customers chose. As demonstrated to the client it will result in an increase in revenue. Furthermore, should the client chose to do so, they need to number the seats in the auditorium, which helps customers to sit wherever they wish comfortably and it also makes the organizers' job easier when letting people in and out.

According to the paper-based surveys done 2 years ago, more than 20% of guests visit the theater from a large city nearby. Based on my market research, that city has at least two- or even three times more people who are interested in my client's services, but cannot travel there without having to compromise. The bus leaves every 2 hours, the cab is extremely expensive, the distance is too long for a walk at night, it is hard to park at the theater and if going by car the driver is not able to drink a glass of wine or a beer. Therefore I proposed an alternative solution to this issue. By having a designated mini-bus that takes guests with already purchased tickets to and from the theater for free or for a minor fee, the company could increase the number of its guests and hence

its revenue by at least 20%. I sent the client 5 offers from different suppliers and the calculation of the cost of operating the transportation services by themselves.

Having more sources of revenue is essential in every business, including small ones. In order to help the client to broaden the spectrum of their offerings, I put together a list of ancillary products and services I believe they should sell and provide beside their main activity. Most of these product- and service ideas are branded items and special activities which both make the customer more comfortable during their stay in the countryside and help them remember the evening they bought or used them. Besides providing better customer experience and free marketing, these auxiliary products and services also create extra sources of revenue for the client. One of these services was the option to buy VIP tickets, which leads us to the next paragraph.

Having a separated area where customers enjoy special treatment is a common option entertainment companies provide. It is commonly used thanks to its special ability to attract famous and wealthy politicians, businessmen, stars and so on. Having the elite join the ranks is definitely good marketing for a company that focuses on high-quality entertainment and prestige as a brand. I recommended executing this plan for my client, with a detailed list of products and services. I also suggested a price based on my calculations for the costs and expected revenues.

### Reaction plans for the situation caused by COVID-19

The last, but still most important part of my work was to advise the client in matters concerning the COVID-19 epidemic. The client and I worked together to come up with innovative solutions to be able to operate this season. Whenever a new executive order came out, we immediately started working on the solution on how to function by both keeping the guests safe and complying with all the current regulations. During these few months, I prepared at least 15 plans, from which the client accepted 7 scenarios that can actually be executed without making a serious loss.

### Lessons learned

During these extreme times, I learned that having a great out of the box idea might not be enough to impress someone with 30 or 40 years more experience than me. I also have to be able to make these ideas feasible for the particular client and the particular situation. Furthermore, I also needed to pitch them in a way that sounds both confident and enthusiastic and at the same time tempered and sober-minded. This was not easy at first, but I managed to master it and succeeded. I also learned that gathering even public information about competitors is remarkably difficult or sometimes impossible. Next time I leave more time for market research and set more realistic goals when negotiating and contracting with the client.

















