

# Royal Spa Centre Cinema - business case

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## Introduction

The Royal Spa Centre is a theatre and cinema complex which is owned and operated by Warwick District Council.

The Royal Spa Centre has committed to bringing the best available theatre and entertainment to audiences in central Warwickshire and the wider region; and to offer those audiences a high quality experience when they visit us.

This document provides the business case for updating the current Royal Spa Centre Cinema equipment to digital and plans to ensure that the facility no longer runs at a loss.

## Background

The Royal Spa Centre is a multipurpose arts and entertainment venue in Leamington Spa. It has two auditoria, a main house which can hold 667 people and a studio theatre which holds up to 188 people and also acts as a cinema.

Cinema and film are currently offered by two venues in the District- the Royal Spa Centre and The Apollo (Vue Cinema). The Apollo is the larger venue with 6 screens each holding 160 seats and the Royal Spa Centre having 1 screen holding 188 seats.

Four of the screens at the **Apollo** cinema are Digital 3D-enabled, bringing the latest blockbusters to the town. The Apollo additionally offer Kids AM (morning screenings for children), some art-house films, and stream live theatre\music. There are two large multi-screen cinemas situated outside the District in Coventry and Rugby.

'Arthouse' cinema is predominantly catered for by **Warwick Arts Centre** in Coventry, **The Picture House** at Stratford-Upon-Avon and slightly further afield at **The Electric Cinema** in Birmingham. All of these cinemas also mix mainstream films in with this programming along with some alternative content (such as live satellite broadcasts).

Historically the Royal Spa Centre cinema offered a range of film, some of which was 'arthouse' in nature. The programme has changed in the past three years and the cinema more recently has shown a more varied film programme of arthouse film, classic film, recent family cinema releases and alternative content. The majority of the existing audience for these screenings live locally and is made up of residents from the District.

## 1 Reasons

### 1.1 Outdated equipment

In 2010, more than 70% of new theatrical films in the UK were released in digital cinema format (often alongside 35mm, occasionally solely in digital cinema format). It is now accepted that the Digital Cinema Initiative approved digital cinema format will replace conventional 35mm film projection as the principal format used in professional film distribution and exhibition. Most commercial cinemas and many independents have already made, or are now in the process of making, the transition to

digital and installing digital projection equipment in all their screens. It is most likely that the 35mm cinema projector equipment the Royal Spa Centre currently uses will become obsolete by 2014\15. It is already challenging to source 35mm copies of some films, as the number released in that format shrinks.

The key advantages of digital cinema for local cinemas are:

- The distribution of films to cinemas is potentially much more cost efficient, quicker and easier. Individual cinemas will potentially be able to get the latest, high earning films at the same time as West End cinemas. It will be more economically viable to distribute minority interest films and to provide subtitled or dubbed versions.
- The picture and sound quality will always be good quality. No scratches, jumps, dirt or flicker to disturb the viewing experience
- Local filmmakers, students and school pupils will be able to project their films to local audiences, quickly and inexpensively.
- Localised advertising tailored to the particular audience will be possible.
- Non-film uses, especially the streaming of live cultural events, may become important additional revenue streams. A number of cinemas in the UK are now offering live and recorded cultural and sporting events in cinemas and reporting revenues 200% to 400% over regular film screenings.
- For the provision of regular screenings, the technology is relatively easy to use and will impact on many aspects of the cinema operation and economics. For example there are now a small number of commercial digital cinemas in the UK where front of house and technical staffing levels have been reduced to a minimum.

## **1.2 Cost Efficiency**

Data provided by the Royal Spa Centre box office and the WDC Finance department shows that the Royal Spa Centre Cinema has been running at a loss for several years and average attendance per screening has been static at 31 people, a 17.5% attendance rate.

Financial information (below), taken from the last two financial years clearly highlights that staffing costs, film distribution and associated charges\memberships have depleted any possible income.

<b>Previous Two Years Actual</b>	<b>2011-12 (financial Year)</b>	<b>2012-13 (financial year)</b>
Total Tickets Sold	8,900	8,800
No. of Screenings	274	279
 Ticket Income	 31,600	 31,200
Pearl & Dean Advertising Income	2,000	2,000
	<b>33,600</b>	<b>33,200</b>
 Running Costs Film Cost	 12,300	 11,800
Support Costs - Maintenance	0	0
Courier	2,200	2,200
Cinema Supervisor (Including On-Costs)	17,600	18,500
Usher (including On-Costs)	9,100	9,100
Digital Funding Partnership Membership	400	400
	<b>41,600</b>	<b>42,000</b>
 <b>Income minus Expenditure</b>	 <b>-8,000</b>	 <b>-8,800</b>

These losses are largely due to the current system incurring inefficient staffing costs. The role of Cinema Supervisor was the only member of staff able to carry out the specialist work involved in preparing the film stock. He would wait for the distributor to deliver the film, then transport it to the splicing room, splice it, transport it back to the studio, mount and thread the film and then go on to operate the 35mm cinema projector throughout each and every screening. A steward was also required to sell/check tickets, beverages and snacks. At the end of the film run the process was then repeated in reverse, making the entire process very lengthy and costly. It was also exposed to failure, as the Cinema Supervisor was the sole competent authority on the equipment- meaning that if he was absent for any reason the films could not be screened.

The time saved by installing the media server supplied with the Digital Cinema Package would be paramount to costs savings as it eliminates the requirement for the Cinema Supervisor. The means that the role played by the Cinema Supervisor can now be covered by any of the Royal Spa Centre's existing in-house Technical crew. The server supplied with the package is crucial to this as it would allow film programmes to be built in and include other automated commands such as house lights off; pre-show music etc. These programmes are then scheduled, so that each film plays at the correct time without requiring a technician in attendance. Like conventional cinema, there is a weekly change-over on Fridays from the distributors, meaning there is still be work involved; however, removing the need for a technician's presence throughout each screening would vastly reduce staffing costs.

In an attempt to further reduce staffing costs and making the venue as efficient as possible the Royal Spa Centre would aim to only screen the cinema when a concurrent event is showing in the main auditorium. This would mean that there would be no additional staffing costs, as box office staff for the main house can steward the cinema and the duty manager would already in place for the main auditorium.

Contractual terms between film distributors and the Royal Spa Centre are set on a film-by-film basis and are dependent upon demand and the dates of supply. Deals will include a minimum guarantee of screenings, as before (distributors can dictate a minimum number of screenings of each film we must present).

The Royal Spa Centre cinema has the potential to earn a much higher income. Throughout financial year 2012/13 the maximum possible income of the cinema was £159,000, after costs. This figure is based on selling every single ticket at every screening with maximum ticket sales of 5,293, which isn't realistic. However, it clearly identifies the capacity for growth, and higher potential for profit. The Royal Spa Centre is currently working on strengthening its marketing strategy in conjunction with the cinema and is anticipating that having a more structured approach to targeting audiences will increase ticket sales.

The cinema additionally takes approximately £2,700.00 pa in snacks and beverages, which equates to approximately 0.30 per head. Unfortunately, once we have removed staffing and associated costs for products, no profit is made. Again, if staffing is planned efficiently it is expected that the secondary spend profit will also increase.

### **1.3 Local Community & Footfall**

The Royal Spa Centre continues to receive lots of enquiries from its existing client base in support of keeping the cinema open. The general consensus being that closing the cinema in it's entirety would have a detrimental effect on the District's cultural offering.

Testimonials from the public indicate that there is ample opportunity within the District for the type of alternative cinema service we offer. Data shows us that this certainly seems to be true for alternative events we have screened in the past, such as 'Cabinet of Dr Caligari', a silent film which included a live piano player, selling 84 tickets in one performance.

The Royal Spa Centre cinema additionally engages in the local community where venues such as the Apollo cannot. The Royal Spa Centre currently collaborates with groups such as 'Roots to Shoots', who promote new filmmaking and creative talent in Coventry and Warwickshire and during school holidays screens mainstream family cinema releases at very competitive prices. The Royal Spa Centre also promotes discounted tickets for over 60's in any matinee performance.

It is considered that with a more structured marketing approach there will be many more opportunities to target specific audiences for certain events, examples of which are below.

- Teen pricing (13-18) and Teen screens
- Over 18 screenings for non 18 rated movies
- Mother and Pre-School
- Classics night
- Family tickets
- Film clubs
- Cinema parties
- Cult Films

Since the service was temporarily suspended in March 2013, the RSC has been contacted by a number of local organisations hoping to maintain existing and form new partnerships. One of which was a book club, with over 300 members, looking for a venue for a spin-off Film Club. They remain interested in discussing methods of getting a large number of their group to regularly attend art house films at the Royal Spa Centre as well as hiring some space to discuss the film after with access to purchasing refreshments. Maintaining local partnerships with groups such as this is very beneficial to the Royal Spa Centre and increases general footfall to the building, leaving the potential for some secondary spend.

Comments from the public also demonstrate that the cinema needs to work harder to make their variable audience aware of upcoming showings. General experience of the cinema tends to indicate that unless customers walk past the centre itself there is nothing in the town centre to make people aware of what is on offer. It is felt that greater use of traditional advertising within the town centre, the local paper and social media may increase the cinema's profile. Again, this relies on the Royal Spa Centre strengthening its marketing strategy and having a more structured approach to targeting specific audiences.

### **Testimonials**

*The service provided by the Royal Spa Centre differs greatly from that of the Apollo cinema. Firstly, there is a more personal and personable approach from the staff. The Apollo focuses on showing big budget, blockbuster type films usually of American origin. The Royal Spa Centre on the other hand, even though it shows such films on occasions with the recent example of Skyfall, mainly focuses on foreign films, art films and those with lower budgets. The Apollo is like McDonalds. On any given week you know what you are going to get only by knowing what films were released earlier in the week. The focus is on mass consumption of films. If this analogy is followed it seems logical that there are other palettes to be catered for which must surely be present in a town such as Leamington Spa. (Marianna Perdikouri & Patrick Bodger)*

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*Please reopen the cinema soon. The scope and depth of films shown here was such a wonderful addition and added so much to the area. I have seen some real cutting edge films here and really developed my taste in cinema.*

*Leamington is turning into a non-descript large shopping centre built on consumer culture and having this wonderful arts centre gave it a real edge. Some of Warwick and Leamington's residents do still want to support local business and not become over run by non-descript chains which is unfortunately becoming the case. (Matthias Schmidt)*

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## Case Study

An example of a similar multi-functional venue which has moved to digital is:

### **The Corn Exchange in Newbury**

Who present and produce some of the best UK and International artists and companies, supporting the development of new work, commissioning and incorporating resident companies, as well as housing a full time cinema and visual arts programme.

The Corn Exchange made the move to digital in 2007 with a grant from the UK Film Council (which no longer exists) as part of the Digital Screen Network, to pay for the hardware which at the time was worth about £60k. The installation was provided by Arts Alliance Media (AAM) who still maintains the equipment.

Unfortunately the cinema doesn't make much profit (as it is limited to 40 seats), however it is seen as an important cultural asset, providing a steady footfall into the building as it operates throughout the year with very little down time, and there is some secondary income as well. Once it has been scheduled the screenings runs on their own as a fully automated programme (turning house lights and music on/off). The Corn Exchange has a Doremi DCP2000 media server (2GB hard drive) that can hold about 7 or 8 films at any one time and the film content is distributed to them as a physical hard drive.

They also have a Christie Cine IPM multimedia switcher; which allows them to interface with the projector and to show alternative content. This can be anything that is plugged into the Cine IPM such as DVD, Bluray or Laptop. They are currently looking into satellite links to screen live events.

The media server is central to their operation as it allows them to build film programmes that include other automated commands such as house lights off; change masking/film format; play pre-show music etc. These programmes are then scheduled, so that each film plays out at the right time without a technician in attendance.

## Options

### **2.1 Purchase new digital cinema equipment from Arts Alliance Media (AAM)**

Full Digital Cinema provided from AAM includes the following -

#### **£29,995 (EX VAT)**

- Projector – Christie Solaria One+
- Server – Christie IMB Server and RAID Storage
- Xenon Lamp
- Suitable Lens
- Customised Steel Pedestal
- Ancillaries (UPS and Automation Interface)
- All necessary cables and connectors
- Installation

- 3 Year Manufacturer Parts Warranty
- 1 Year AAM Platinum Support including:
  - Unlimited first line support
  - 1 Preventative Maintenance visit
  - Proactive Monitoring
  - Spare Parts Management
  - Initial Onsite training

### **Additional Cost**

To enable the Digital Cinema Package to screen live cultural events and function automated a contingency of £7'000 has been added to the final figure to cover the cost of the satellite link, automated equipment and specialist cabling required.

Although we receive 1 year AAM Platinum Support, after the first year this maintenance service would cost £1,795 pa.

### **Pro's**

- Time efficiency
- Staffing Costs
- Distribution of films potentially much cheaper, quicker and easier
- Picture and sound quality will always be as good
- The ability to stream cultural events, which may introduce important additional revenue streams
- Relatively easy to use and impact on many aspects of the cinema operation and economics

### **Con's**

- Keeping current with technology
- Replacement lamps etc (every 6 months)

## **2.2 Purchase new digital cinema equipment from Sound Associates**

Full Digital Cinema provided from AAM includes the following –

### **£49,740.00**

- Projector – Christie Solaria One
- Server – Christie IMB Server and RAID Storage
- Xenon Lamp
- Suitable Lens
- Customised Steel Pedestal
- Ancillaries (UPS and Automation Interface)
- All necessary cables and connectors
- Installation
- 3 Year Manufacturer Parts Warranty

### **Pro's**

- Time efficiency
- Staffing Costs
- Distribution of films potentially much cheaper, quicker and easier
- Picture and sound quality will always be as good
- The ability to stream cultural events, which may introduce important additional revenue streams
- Relatively easy to use and impact on many aspects of the cinema operation and economics



### Con's

- Cost in comparison to AAM
- No support\training\spare parts management
- Keeping current with technology
- Replacement lamps etc (every 6 months)

### Additional Costs

To allow the Digital Cinema to show live cultural events and function automated a contingency of a maximum of £7'000 to cover the cost of the satellite link, automated equipment and specialist cabling.

Associated Support Costs will also apply.

### 2.3 Hire Projector and Blue-Ray Player from ATC (daily basis)

	Net
1 - Panasonic PT-DZ110X HD Projector	£312.50
1 - Panasonic LE20 1.7-2.4:1	£37.50
1 - Samsung BD5900 Blue-Ray Player	£10.00
Set Up\Transport	£70.00

**Total £516.00 INC VAT**

Note - The cost of the daily hire would decrease the longer the hire period.

### Pro's

- Only paying for the days we need
- Support included in hire
- Projector is less noisy than Christie Solaria One

### Con's

- Streaming not possible
- Restricted content
- Never have full ownership of equipment

### 2.4 Virtual Print Fee (VPF)

The Virtual Print Fee (VPF) model was developed as a mechanism for sharing the financing of digital equipment. In the film process chain, the main economic beneficiaries of the transition from 35mm to digital technology are film distributors. With digital, print costs are substantially reduced, with a cinema-ready copy of a standard feature film costing as little as £50 as opposed to £500 - £2500 for a 35mm print. The VPF model is designed to reflect this by bringing contributions from distributors towards the financing of digital equipment. Under a VPF agreement made between the cinema, distributor and an equipment supplier or 'integrator', exhibitors lease the digital equipment from the supplier, who then receives an agreed fee from the distributor – the virtual print fee – every time the cinema books a film on its release date. Over the term of the agreement, it is hoped that the cumulative fees, added to the cinema's leasing fees, will amount to the capital costs of the equipment.

Unfortunately this model only works on the saving distributors make, consequently, they are only willing to predominately pay for national release copies. As the RSC historically does not screen films on national release dates this option would only be available should we begin to do this.

### 3-Evaluation

In order to show a varied programme of events targeted at different audiences the preferred option would be **2.1 Purchase new digital cinema equipment from Arts Alliance Media (AAM)**. The quote for the full installation is very competitive in comparison to other providers and they additionally offer a beneficial support package.

The full package would allow us to show a wide range of films and include streaming in our programme which would possibly bring in an additional revenue stream. Alongside the cost efficient and varied programme we could offer the time saving element that the server brings would be paramount to staff savings and go some way to the cinema bringing in its potential income.

Estimated projections indicate that the cinema could earn back the initial capital expenditure spent on this equipment by financial year 2015/2016. The calculation is based on an average attendance rate of 20% per screening, and achievable increase of 12.5% in ticket sales, which equates to an extra 3.5 people per screening. Even if there was no increase in audience numbers the saving would still be £17k and that would increase by £1.5k pa for every 5% increase in audience numbers.

Estimated projection	2013-14*	2014-15	2015-16
Estimated tickets sold (Est annual increase 12.5%)	4,700	10,000	11250
Estimated ticket Income	16,700	35,300	39900
Pearl & Dean Advertising Income	1,000	2,000	2000
	<b>17,700</b>	<b>37,300</b>	<b>41,900</b>
Estimated Running Costs Film Cost	6,050	12,100	13600
Support Costs - Maintenance	0	1,400	1400
Courier	1,100	2,200	2200
Cinema Supervisor (Including On Costs)	0	0	0
Usher (including On-Costs)	4,550	9,100	9100
Digital Funding Partnership Membership	0	0	0
	<b>11,700</b>	<b>24,800</b>	<b>26,300</b>
<b>Income minus Expenditure</b>	<b>6,000</b>	<b>12,500</b>	<b>15,600</b>
<b>Total Savings</b>	<b>14,400</b>	<b>20,900</b>	<b>24,400</b>

*\*2013-14 Adjusted for 6 months, October onwards*