



Business Plan



PARADISO LUXURY CINEMAS

A Destination to Experience.



**SASIN GRADUATE INSTITUTE OF BUSINESS ADMINISTRATION OF
CHULALONGKORN UNIVERSITY**

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“[2005] has been a torpid year for Hollywood and, by extension, for most movie theaters...In the midst of a box-office slump, upscale cinemas are bucking the trend...”

- Time Magazine, August 2005

In the United States, going to the cinema to watch a movie is just not the unique, enjoyable experience it once was. The business plan of Paradiso Luxury Cinemas (“Paradiso” is Spanish meaning “paradise” and/or “Heaven”) has been designed to serve the growing demand and need for a higher quality movie-going experience in the United States.

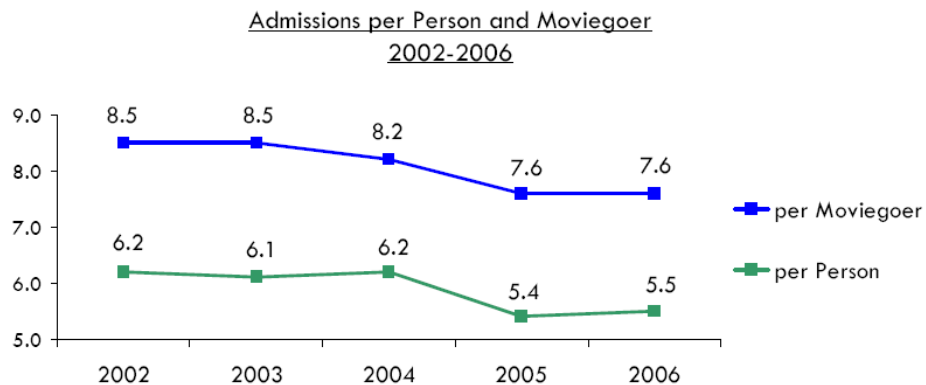
Movie theaters across the US have succeeded as a volume business, focusing only on occupancy rates while skimming more and more on investments and upgrades in order to keep operating costs low. Some of the most common complaints among movie patrons are the following:

- Long lines to buy tickets
- Small, cramped seating
- Rude manners and behavior (ie. Cellular phone calls, talking, etc.)
- Old, uncomfortable seats
- Limited menu selection at the concessions stand

However, in spite of all this, according to the Motion Picture Association, the US is still perhaps the world’s leading country in regards to cinema admissions (admissions = number of movie tickets sold) and box office revenues. With the population of the US currently around 300 million nationwide, 175 million people went to the cinemas at least



once in 2006 – nearly 60% of the population! Additionally, this 175 million represented over 1.3 billion movie tickets sold for a total market size of \$9.49 billion. “Frequent moviegoers” (moviegoers that saw at least one movie per month) represented 1.1 billion of the total number of tickets sold – showing the purchasing power of this segment.



Of the 175 million moviegoers in 2006, nearly 75% were over the age of 24 and 25% were between the ages of 12 and 24 years old. Also, the majority of the “frequent moviegoer” segment was single, without children, and earned an annual income of over \$50,000. As a result, the target demographic for Paradiso will be high disposable income professionals between the ages of 25-45 years old. They will also be entertainment lovers, single or couples with no children, and the type that enjoys the fine dining, trendy experiences.

Preliminary market research has pinpointed Los Angeles, California as the ideal launch location for several reasons:

- Approximate total market size of over \$235 million.
- The hip, trend-setting culture of Los Angeles fits our target customer psychographic.



- With a total population of 10.2 million people, approximately 7 million fit our target age demographic. Also, the median income is greater than \$50,000 and disposable income is growing significantly (source: US Census).
- Los Angeles is the center of the movie world and it's proximity to major entertainment firms offer many strategic advantages.
- The average moviegoer is already spending \$30-\$40 per cinema visit (source: Nielson 2006 Consumer Research Report).

Paradiso Luxury Cinemas makes going to the cinema an experience again. Preliminary designs have accounted for 6 theaters with 100-150 seats and 2 theaters with 250+. Inspired by the success of upscale theater operators in Thailand - such as Paragon Mall's Nokia and Enigma Theaters of Major Cineplex and SF Cinema's Gold Class Theaters – Pardiso will likewise focus on offering unprecedented movie-going luxury and service. The two primary components to offering this type of movie experience are:

- World Class Premium Seating. Every theater will be equipped with seats of varying luxuriousness – from large, plush single person seats similar to those seen in theaters now to stylish couches and bed-like sofas. These seats will be sold at different ticket prices depending on the varying class levels to match the customer's needs. There will also be private VIP viewing suites available for high profile VIP that require more privacy and/or have ample disposable income such as a celebrity, professional athlete, or successful business person – a prevalent and prominent segment



in Los Angeles. Ticket prices will be priced between \$20-\$40 per seat with the private VIP viewing suites costing \$200-\$500.

- Premium concessions and in-theater food and beverage, including champagne and wine) service that will offer a wider array and higher quality of foods than the normal popcorn, candy, and soda options you see now. Concessions are a high margin business, that represent approximately 70% of total theater profits. Paradiso will offer a wider variety of high quality foods and beverages which offer even higher profit margins and will leverage concessions with restaurant and lounge businesses (discussed later) for more efficient economies of scale.

The business strategy of Paradiso will include three high margin businesses that will significantly contribute to the bottom line while complementing the core cinema business:

- Outdoor Restaurant with views
- A Chiq, Ultra-Hip Roof-Top Lounge
- Thai-inspired Spa Service

These businesses will allow for a multifunctional space throughout the day, a huge strategic benefit compared to most theaters can only operate during higher traffic evening and weekend showtimes. Paradiso will also be a venue for major movie premiers and corporate events which will help build word of mouth advertising.

The management team consists of 3 MBA graduate students with a combined 10 years of international work experience in such countries as the US, Mexico, Canada, and



Thailand. Su Lee, the CEO and founder of Paradiso Luxury Cinemas, has prior experience in business development and strategic planning for major entertainment companies such as Paramount Pictures, Warner Bros. Pictures, and Twentieth Century Fox.

Paradiso expects to generate revenue \$5.55 million in its first year of operation and grow to \$23.25 million in five years. The investment will yield a Net Present Value of \$5,071,023, discounted at 60%, with an IRR of 93.2%. Paradiso is seeking a total of \$6.23 million in funding, and in return will offer a 55% equity stake. This is a very exciting venture that will prove to be financially profitable; the management team looks forward to further discussion with investors.

Table 1 Summary of Financial Data

Income statement	Year 1	Year 2	Year 3	Year 4	Year 5
Total Sales	\$5,546,000	\$8,744,000	\$13,076,600	\$18,228,580	\$23,247,746
Total costs and expenses	\$5,461,875	\$5,202,263	\$6,711,589	\$8,354,908	\$9,876,352
Earnings before Tax	\$84,125	\$3,541,738	\$6,365,011	\$9,873,672	\$13,371,394
income tax rate	35%	35%	35%	35%	35%
Profit after taxes	\$54,681	\$2,302,129	\$4,137,257	\$6,417,887	\$8,691,406
Founder's investment	\$1,000,000				
Funding required	\$6,228,125				
Cost of capital	60%				
Present value of Free Cash Flows	\$5,071,023				



Architectural Design Concepts for Paradiso – Los Angeles

