

STRATEGIC CASE STUDY

Strategic stage

NOTES TO CANDIDATES

- i) Answers to be prepared as on 6 December 2022 by Ali Masterson, who is Finance Manager at the Fabula Arts Complex (FAC).
- ii) All calculations and diagrams provided in source materials should be assumed to be arithmetically correct.

QUESTIONS

1	Prepare a draft report for the Artistic Director on the future of FAC's smaller venue, The Roundhouse.	55%
2	Prepare a briefing paper for the Artistic Director on future strategic options and direction of the organisation, ahead of his discussions with the FAC Board.	45%

Question 1 Requirements

The Fabula Arts Complex (FAC) Board wishes to review the future of its smaller venue, The Roundhouse. As per the email of 5 December from the Artistic Director, Jibril Roy, prepare a draft report covering the following issues that the Board will need to consider:

		Marks
i)	Discuss the performance indicators (PIs) that would be suitable for evaluating the performance of FAC, and its different business segments.	11
ii)	Using 2019/20 data, evaluate the financial performance of The Roundhouse against FAC's other segments of operation, including any other financial factors the trustees should be aware of.	9
iii)	Evaluate the financial and non-financial aspects of the proposed closure of The Roundhouse and its conversion into a children's play centre.	20
iv)	Evaluate FAC's current pricing strategy when hiring out The Roundhouse, and discuss alternative pricing strategies if FAC chooses to retain The Roundhouse as a performance space.	9
v)	Conclude on your findings and make recommendations on the future of The Roundhouse, including further work to be undertaken.	6
		55

Artistic Director Email

Email

From: Jibril Roy, Artistic Director
To: Ali Masterson, Finance Manager
Date: 5 December 2022
Subject: Future of The Roundhouse

Ali,

Miranda has called in sick again today, so I need you to draft the report for trustees on the future of the Roundhouse please.

As you know, trustees have been concerned about the financial performance of The Roundhouse for a while. I have always felt that the financial picture is not sufficient to properly assess what we do here though, so I would like you to suggest PIs that together will help to gain a complete picture of our performance. There is no need to assess our performance against the PIs for now, except in relation to relevant financial measures (see below), as I will get the trustees' thoughts on the proposed PIs first.

The trustees do, though, require that a section of the report evaluates the financial performance of The Roundhouse against our other income-generating operations, and I attach information that Miranda has gathered so far on this.

As you know, one option is to turn The Roundhouse into a play centre for young children, from 1 to 10 years old. Miranda received information from Little Tykes Play Co. on what is likely to be needed in order to do this, which I will forward to you. Miranda was going to analyse this over the next 10 years; could you do the necessary analysis, please? I am keen that non-financial issues are considered too, though, as I am not initially keen on the idea in general.

I would strongly prefer to keep The Roundhouse as a performance space, but I am under a lot of pressure from trustees about its financial performance. If retained, Miranda said we need to look at pricing strategies for The Roundhouse when we hire the space out to external production companies; could you give me some suggestions on that and review our current approach please?

Lastly, please conclude on all of the above issues and make recommendations on the best way forward for The Roundhouse. Any insight you can offer would be great: Miranda does tend to use a lot of financial language and focus on the financial results, but I struggle to understand that when we are here to create art!

Thanks,

Jibril

Director of Finance email – segment analysis

Email

From: Miranda Parks, Head of Finance and Resources

To: Jibril Roy, Artistic Director

Date: 5 December 2022

Subject: Financial performance of FAC's segments

Jibril,

I am feeling unwell today and going for a Covid test, so will not be in the office again. As requested, I have gathered data to evaluate The Roundhouse against our other activities, broken down by each segment. The figures are from 2019/20 as that was our last 'normal' year due to the pandemic – I think it is best to base the analysis on 2019/20 so we do not have to try to identify the impact of the COVID-19 restrictions.

The management and administration costs have been apportioned to segments on the basis of percentage of overall turnover. As you can see, the financial performance of The Roundhouse is problematic to say the least.

	Main Stage	The Round-house	Cantina Café	Gallery	Shop	Total
	£	£	£	£	£	£
Turnover	2 890 426	728 492	101 690	24 198	23 462	3 768 268
Cost of sales	-2 728 493	-839 302	-83 902	-21 674	19 846	-3 693 217
Gross profit/loss	161 933	-110 810	17 788	2 524	3 616	75 051
Management and administration costs	-179 994	-45 365	-6 332	-1 507	-1 461	-234 659
Operating profit/loss	-18 061	-156 175	11 456	1 017	2 155	-159 608
					Donations income	93 784
					Grant income	40 472
					Other income (including community outreach)	8 384
					Other costs (including community outreach)	-3 160
					Net profit /loss	-20 128

Miranda

Director of Finance email - play centre

Email

From: Miranda Parks, Director of Finance
To: Jibril Roy, Artistic Director
Date: 1 December 2022
Subject: Play centre

Jibril,

I showed the sales representative from Little Tykes Play Co. around The Roundhouse last week, and they provided information about what they could do, by the end of this financial year, to help set up a play centre in there, as follows:

- Removal of seating, lighting and other technical equipment to clear the space, at a cost of £8 000.
- Installation of significant amounts of security equipment to adhere to child safeguarding legislation, including doors / gates with locks to prevent the children leaving without a parent being aware, and cameras to cover all angles of the play space. This would cost £15 000 to buy and install.
- The play equipment itself – slides, climbable areas, netting, crash mats etc. – would cost in the region of £40 000 (dependent on the specification we decide on). Based on their estimates of useful life, assuming adequate maintenance, we should depreciate this over 10 years.

The other relevant information for the financial analysis, as I see it, is as follows:

- Little Tykes suggest an average price per play session of £7. They said that comparable play centres open for around 300 days per annum (6 days a week but with closure on some other days off for public holidays), and they estimated we would sell an average of 100 play sessions a day for the days we are open, against maximum daily capacity of 120 play sessions.
- In addition, we would save whatever we are losing on The Roundhouse. As the last two years have been heavily affected by the pandemic, we should use 2019/20 information for this.
- We would need to recruit staff for the play centre, and Little Tykes have advised that to cover 300 days a year, annual salary costs would be around £175 000, and we need to add 40% for on-costs (employment taxes, pension etc).
- Daily cleaning and maintenance of the equipment can be done on a contract basis, and is estimated at £30 000 per annum.
- Little Tykes suggested we need to allow a budget of about £20 000 to promote the centre. They have suggested we spend 25% of this in this financial year, before it opens, and the rest in the first year of its operation.

We believe we could have the play centre operational in the first month of 2023/24, and should assume 70% of estimated demand in the first year, and 100% thereafter.

Based on current borrowing rates we should assume a discount rate of 3%.

Miranda

3% Discount factors

Year	Discount factor	Cumulative discount factor
1	0.9709	0.9709
2	0.9426	1.9135
3	0.9151	2.8286
4	0.8885	3.7171
5	0.8626	4.5797
6	0.8375	5.4172
7	0.8131	6.2303
8	0.7894	7.0197
9	0.7664	7.7861
10	0.7441	8.5302

Question 2 Requirements

The Fabula Arts Complex (FAC) Board has requested a report into the future strategic direction of the organisation. As per the email of 5 December from the Artistic Director, Jibril Roy, prepare a briefing paper covering the following issues:

		Marks
i)	Analyse the culture within FAC using the cultural web, including any impact on potential strategic options and an assessment of the organisation's likely receptiveness to change.	16
ii)	Perform a SWOT analysis, discussing how this analysis could be used in the formulation of strategic options for FAC.	12
iii)	Use the strategy clock model as a basis to evaluate possible strategic directions for FAC's theatre offer.	12
iv)	Conclude on your analyses and make recommendations, including consideration of the likely achievement of FAC's mission.	5
		45

Artistic Director Email – strategic direction

Email

From: Jibril Roy, Artistic Director
To: Ali Masterson, Finance Manager
Date: 5 December 2022
Subject: Briefing note on FAC's strategic direction

Ali,

Because of all this negative press about the shows booked for the Main Stage, trustees have started raising questions with me about our strategic direction. It is very frustrating as we do not seem to be getting the credit for putting on more highbrow productions in The Roundhouse any more either; the local press just does not seem to understand the value of art! I have ideas about what I see in our future, including trying to align our programme of productions with the most popular classic plays, but I also know that the City Council and our Finance team are most worried about the need to generate a surplus.

Two of the most vocal trustees are qualified accountants, and they have asked for some specific outputs about culture and strategic options, which I need your help with. I have attached a section of the final report from the Human Resources (HR) consultant, which builds upon their findings in the interim report from October.

I am aware that there may be some tricky messages for you to deliver as you are part of Miranda's team. Please write whatever you feel is necessary, and do not feel you have to hold back on my account. The analysis needs to be as robust as possible, even if that makes for awkward reading!

I will also need some conclusions on all of the above, with some associated recommendations. The trustees will probably want these to be in line with our mission, but I think that the different aspects of the mission and strategic objectives seem to be becoming increasingly difficult to accomplish together, so feel free to challenge them where necessary.

Thanks,

Jibril

HR consultant report

1 December 2022: Extract from final HR Report into staff-based issues at FAC

This final report into the staff issues at FAC builds upon the interim report provided in October, and outlines further key findings.

'Team building'

Shortly before the pandemic hit, the Artistic Director put in place 'Elevenses', which is a 15-minute coffee break at 11am every day for staff to go to the kitchen area and chat. This was intended to build rapport and alleviate some of the tension between departments.

During November 2022, the HR consultant attended Elevenses every day for a fortnight, and observed that it was almost exclusively staff from the artistic departments that attended. When some administrative staff attended, they did not integrate with the others (and were not invited to), and left after only five minutes. As an experiment, I went round the Finance and Resources, Fundraising and Facilities departments shortly before 11am on some of these days to remind them about Elevenses, but was always told they were too busy to attend. By contrast, many of those staff members that did attend Elevenses stayed well beyond the 15 minutes. On one occasion, three members of staff were there for an hour, and were not discussing work issues.

Free tickets

Where an event on the Main Stage or in The Roundhouse is not sold out on the morning of the performance, free tickets are available for staff to attend. These free tickets started out being available to all staff in FAC, but when one usually highly popular comedian did a performance on the Main Stage, which was not sold out on the morning of the show, the Head of Finance and Resources encouraged all of her staff to book tickets as soon as they were at work that morning, as a team-building event. The artistic departments tend to arrive at work 1-2 hours after Finance staff, and found there were insufficient tickets left for them to book by the time they arrived at work.

Complaints were made to the Artistic Director, and the artistic departments now have first refusal on all free tickets, with the Artistic Director confirming that this decision was made on the basis that seeing the performances 'is more relevant to staff in the artistic departments than it is to back-office staff'. Anecdotally, staff in the administrative departments believe that certain members of artistic staff book up all the free tickets for such events, pass them on to friends and family, and often do not attend the shows themselves.