



## TPE 2023 – Case Study Part 2

### Theatre Stars

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## CASE STUDY

It is two weeks later. Nick Clouter has called you in to see him at lunchtime.

“Sorry to interrupt your lunch Dylan but I leave for the south coast later today for my daughter’s wedding,” he says.

“The Theatre Stars assignment has moved on. I knew that there would be more fees from this client. Samira Gauch spoke to me this morning. She will be in one of the meeting rooms now, waiting for you. She needs a report on a few matters. You will have to write it and give her a draft by the end of the day. I can look at it when I return from holiday and sign it off then.”

“That does throw me in at the deep end,” you say, “What if there are any issues? I wasn’t happy with a number of things I came across in my previous work.”

“Oh, if you must, send an email to our ethics partner and he will advise you. Do the report first though.”

With some trepidation, you go to the meeting room.

“Hello, Dylan, it’s nice to meet you,” says Samira. “Thank you for meeting me on such short notice.

“A number of matters have come up and I need an urgent, wide-ranging report from you. I know Nick is going away, but I need it today and he has every faith in you.

“Things have moved on since I met Nick,” begins Samira. “My father has taken a turn for the worse, having suffered a relapse last week. I really need to look at how the business is functioning and streamline it where necessary so that I can allocate my time appropriately. I love what I do, but I also need to prioritise my family right now as well.

“I need JWB to prepare a report to advise me on how I should move things forward in Theatre Stars. I still want to increase the geographical spread of the training school, and that is where I want my focus to remain but I need to consider the possibilities for doing this whilst not increasing the amount of time I spend in the business. I also don’t want to put any additional strain on my staff, and I want to ensure that our standards are as high as possible as the quality of the training is key.

“I am looking at adding additional locations to the business, considering Cardiff, Glasgow and Belfast immediately with an additional site in Aberdeen at a later date. We have students who travel from some of these locations to the existing sites for training, and we receive multiple requests per week to expand our reach geographically to cover all of the UK. I really feel like the demand is there for this to be a success.

“I have considered two options to enable me to move forward with these plans; franchising out the new teams or setting up a new hub in Manchester where Emilia Dawson would be based to cover logistics and other matters for the northern sites (York, Newcastle, Belfast and Glasgow), with the central and southern teams (Leicester, Milton Keynes, Sheffield and Cardiff) being run from the

existing head office in London by me. I have been toying with this idea for over a year and Clive ran some financial projections for me around this time last year. I am aware that there have been a couple of changes within the business, but I think that these provide a solid financial basis to work from. I have brought a copy of his calculations and comments for you to review (Appendix 1). There are sufficient funds within the business for either of these options, so financing is not a factor.

“There have also been some administrative matters that I have become aware of over the last few weeks that were not apparent when I first met with Nick two weeks ago. Following on from concerns raised by some of the parents regarding continuity of training and feedback for their children, Emilia made the decision to change how we utilise the creative instructors over the course of the year.

“Historically, we have utilised different instructors on an ‘as and when’ basis meaning that there could be a different instructor for each discipline (acting, singing or dancing) every week. Emilia made the decision to try and utilise a smaller pool of instructors on a more continual basis so that they could get to know the students more and develop their training over time, enabling more meaningful feedback on their development. Each child will now have the same instructor for a discipline for the year.

“Emilia has also scheduled these instructors to cover several locations, teaching the same course to the different teams, with Emilia having determined the content to be taught prior to each term, to ensure consistency throughout locations. One pool of instructors covers the Sheffield, Newcastle and York teams, with another pool of instructors training at Leicester and Milton Keynes. We now cover travelling expenses for the instructors as they travel between sites.

“Emilia also authorised investment in equipment for the different sites after one of the creative instructors dropped his keyboard on the way back to his vehicle after training and we had to replace it. Again, this ensures consistency in what is available across each site and all creative instructors are required to use Theatre Stars equipment whilst teaching. We still have ad-hoc instructors that we can call on if we need to, to cover an instructor absence but this is also arranged by Emilia, whereas historically the instructor could send an assistant to cover the class for them if they were unable to attend.

“Our operations assistant Jacob is currently off sick, citing stress as the main reason. I am aware that this last 18 months have been very busy for everyone in the team, I know that Emilia often carries on working well into the evening, but this is making things even more difficult. Emilia has mentioned the need to replace Clive Burns, but with everything that has been happening, I just haven’t had the time to authorise a replacement.

“I would like you to provide me with an analysis of both of the options available to me in respect of the geographic expansion, including a recommendation on how to move the project forward. I would also like you to review the current operational matters and provide comments in respect of any weaknesses or issues that require addressing, including details as to what problems may arise if these matters are not addressed.

“One of the biggest changes I am intending on making is in respect of the talent management side of the business. I have considered my options regarding this division, as it requires a lot of oversight but I am unsure as to how much it actually adds to the underlying aim of TS. Considering my intention of really putting the TS name back to the forefront of people’s minds because of our high-end training, I have accepted that the expanded range of services of TS has caused a lack of focus on the training element. Following on from the change of the supply of uniform that you previously assisted with, I am looking to cease activities in the talent management division, either by closing the division or selling it.

“There have been various issues within the division over the course of the past year, with complaints from parents in respect of how the children have been treated regarding castings, and the hours of work being demanded of the children. During our last Select team holiday training week, Freya made the decision to utilise the filming day to provide marketing for the talent management division. She called in some of the Mini team to be included within this. Whilst the parents involved were happy for the experience for their children, they were concerned at how exhausted their children were at the end of the filming day.

“When parents raised this with Freya it was dismissed with the comment “that’s the industry, they need to get used to it”. There was also an incident last month where an email intended for me was sent to all TS parents containing personal details of the current talent management children. Fortunately, there don’t appear to have been any negative repercussions from this and I haven’t had to take any actions beyond issuing an apologetic email to the parents. All these matters have clarified in my mind that the talent management division is not beneficial to the business as a whole.

“I have been approached by another organisation called Boardlights Ltd, an acting-based training company, with a view to purchasing the talent management division. I am not so concerned with the calculation of the value of the division at the moment, more on the notion as to whether this is a beneficial opportunity. Any financial elements will be considered at a later date, and only if the proposal is determined to be beneficial to TS overall. The details of the proposal can be found in the attached memo (Appendix 2) which I received from the managing director of Boardlights at the end of last week.

“I would really like you to provide me with an evaluation of the following two options. Firstly, to close the division at the end of the financial year and secondly to proceed with the offer from Boardlights.

“Finally, I have been in discussions with my parents regarding transferring ownership of the family estate to me. My long-term goal is to use the estate to launch my own residential performing arts school. The estate is a beautiful, listed building with substantial outbuildings and grounds so there should be more than enough room to house myself along with providing sufficient space for the required studios, classrooms and living accommodation for the students. This has always been my ultimate ambition and the estate gives me a suitably sized property base to achieve this.

“However, in the meantime I intend on it being a location to house the Leicester and Milton Keynes teams from the start of the next training year in September, rather than renting venues. It is

situated pretty much half-way between the two team locations and has very good transport links. Leicester and Milton Keynes are just over 50 miles apart and many of our members travel up to 100 miles each week to attend training. Some members even fly in from Ireland each week to train, so I don't think the distance would be an issue. However, I would like for you to provide me with your thoughts on any practical matters that require consideration in respect of this proposal.

"I have also been advised that there is a possibility of registering the school as a charity, in line with many other independent schools. I would like to know what differences there would be in terms of the structure and governance of the school as a charity rather than as a standard limited company, including if there are any differences in the financial information to be produced each year."

"Ok," you say. "That is a lot to do in the time available. To sum up, we will prepare a report for you which:

- advises on the proposals regarding potential franchising or an additional hub to facilitate the geographical expansion;
- evaluates the potential closure or sale of the talent management division;
- considers the matters relevant to the use of the family estate for both the current and future plans of the business as previously detailed.

"I will get started right away."

Samira gets up and leaves you to begin your work.

## **Required**

- Prepare the draft report for Samira Gauch; and
- Prepare an email to your ethics partner on any matters which you think are relevant.

## APPENDIX 1

### Notes regarding plans to expand geographically (Clive Burns)

#### *Franchising*

All of the new sites (Glasgow, Belfast, Cardiff and later Aberdeen) would be franchised with existing sites remaining under head office control.

The franchise agreement would consist of a franchise fee of £60,000, a minimum of 30% of which must not be debt financed. Recurring franchise fees would be 20% of franchise turnover, with the franchisee bearing responsibility for all member training costs. Marketing, branding and support would be provided by head office along with initial training regarding requirements, processes and administrative oversight. The provision of these support services would result in additional costs to TS of 3% of franchise turnover annually. Each franchise would be for a ten-year period.

Franchisees would be expected to abide by the same structure as the existing sites in terms of team sizes and capacity. They would also be expected to adhere to other conditions, including membership fee structure and the requirement for students to wear the branded uniform.

#### *Northern hub*

The new sites would be subject to the same team sizes and capacity as the other sites, being also subject to the same membership fees. Additional instructor fees to cover the first three new sites are anticipated to be £720k per annum, with additional training location fees of £435k per annum. The hub costs, including premises lease costs, all relevant salaries and centralised costs for the new teams are anticipated to be £420k per annum. When the fourth site (Aberdeen) is added in either 2023/24 or 2024/25 variable costs are expected to scale up proportionally.

## APPENDIX 2

### Email from the managing director of Boardlights Ltd regarding the purchase of the talent management division of TS

#### Email

From: MD of Boardlights

To: Samira Gauch

Re: Purchase of TS talent management division

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Hi Samira

Good to talk to you earlier. Please see below our outline proposition in respect of acquiring the talent management division of TS.

#### Terms:

The purchase price is to be derived over the course of three years based on commission earned by Boardlights, on a basis of 20% of commission earned from clients recommended by TS and subsequently represented by Boardlights.

This figure will be calculated as a part of the year end process at Boardlights by our internal finance team.

Payment will be made within six months of the end of Boardlights' financial year.

TS is required to submit a minimum of 300 children each year for the next three years for potential representation by Boardlights. This will include providing all basic details of the children and providing suitable headshots.

All representation contracts will be annual contracts subject to renewal based on performance each year. For any representation contracts not renewed, that child will not be eligible for resubmission for representation in the subsequent years. As is standard in the industry, contracts would be agreed with parents on behalf of those under the age of 16.

Boardlights are able to utilise references to TS in all marketing material in respect of the talent management division.

**END OF PAPER**