Archit Jajoo
Acct 511

Case 2 - Cost Volume Profit (CVP) Analysis and Strategy: The ALLTEL Pavilion

1. **How would you describe the competitive strategy of the ALLTEL Pavilion? What do you think it should be?**

   The ALLTEL Pavilion, operated by SFX Entertainment Inc. is an outdoor amphitheater that provides live concerts to the public from April through October each year. SFX Entertainment has acquired/merged with a lot of companies, a few who were its direct competitors to become the largest diversified promotor, producer, and venue operator for live entertainment events in the United states. The ALLTEL Pavilion made sure that every patron who attends any of their show has a pleasant experience. Looking at the strategies used above and several others portrayed in the Case we can say that the Competitive Strategy used by ALLTEL Pavilion is a Differentiation Strategy. It provides a service that is unique in terms of better quality and better customer service. It portrays Product Leadership qualities by being the Major Environment Complex in and around the city of Raleigh. They use marketing analytics and the demographics to improve and increase their ticket sales customer base, which in-turn increases their Sales and Revenue.

2. **For the show illustrated in Exhibit A, the KFBS Allstars, how many tickets must ALLTEL Pavilion sell to break even?**

   To break even Pavilion needs to sell 6,658 tickets. While considering Pavilion will be giving out 1665 tickets and will earn revenue from the consumer who receive complementary tickets from Parking, Food Concessions, and Merchandise sales. The Breakeven analysis is shown in detailed in the appendix.

3. **For which type of performer (fixed fee or per capita) is breakeven analysis particularly important, and why?**
   Which type of performer is preferred by the Pavilion, and why?

   The Breakeven analysis is more important for a fixed fee performer when compared to that of a per capita performer as the fee paid to the performer is larger and the total risk of poor attendance falls on the management i.e. ALLTEL Pavilion. The Fixed costs in Fixed Fee performer is high when compared to the per capita performer, because in the per capita performer the performer is paid as a % of no of ticket sales and this can vary depending on turnout, and the performer selects this method of payment only when he is sure of a good turnout. Whereas in a fixed fee situation the management has to pay the fixed amount irrespective of the turnout, and with a poor turnout the management would have low revenue but still incur the high fixed cost of the performer, the performer selects this method of the payment when he is unsure of the turnout and wants to have a secured payment for the performance.
   The type of performer preferred by the Pavilion may vary from performer to performer. Because for a performer pulling in a huge crowd, the pavilion might prefer to pay the performer a fixed

fee and limit their variable costs rather than paying the performer a fee per capita. While on the other hand if the performer is pulling very small crowd then the pavilion might prefer to pay the performer per capita i.e. lower crowd lower fees, with this they limit their fixed costs and incur a minimum variable cost.

4. **Explain how sensitivity analysis could be used to better understand the uncertainty surrounding the KFBS Allstars event.**

A sensitivity analysis is a technique used to determine how different values of an independent variable impact a dependent variable under a given set of assumptions. In terms of the KFBS Allstars event, the independent variable is the number of ticket sales while the dependent variable is the profit obtained by these sales. Sensitivity analysis can help pavilion determine what changes can be made in every aspect to obtain their goal, and how the change in each aspect would affect the required goal. They can use sensitivity analysis to determine if they should be paying the performer a fixed fee or per capita in regard to the expected turnout so as to maximize revenue. These are just a few ways pavilion can use sensitivity analysis for their advantage.

Recommendation: ALLTEL Pavilion should try getting less know artists by getting a contract of per capita fee, which would help them decrease their variable costs and increase their revenue. Then they can bring in more popular artists and offer them a fixed fee to reduce their fixed costs pulling a larger crowd and thus increasing their revenues.

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Appendix

Revenue (Per-Capita)	
Paying customers	
Revenue from Ticketing	$26.99
Revenue from Parking	$1.91
Revenue from Food Concessions	$7.66
Revenue from Merchandise	$3.52
Total revenue	**$40.08**
Complementary Tickets	
Revenue from Ticketing	$-
Revenue from Parking	$1.91
Revenue from Food Concessions	$7.66
Revenue from Merchandise	$3.52
Total revenue	**$13.09**

Variable Expenses (Per-Capita)	
Insurance Expense per person	$0.17
COGS – Concession per person	$0.35
COGS – Merchandise Inventory per person	$1.12
COGS – Parking per person	$0.08
Other Variable Concert Expense per person	$0.02
Parking contract fee (10% of revenue)	$0.19
Concessions contract fee (10% of revenue)	$0.77
Merchandise contract fee (10% of revenue)	$0.35
Total Variable Expense	**$3.05**

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Costs	
Parking Revenue	$19,767.00
Parking Contract	$4,448.00
Parking contract fee (10% of revenue)	$1,976.70
Parking Contract (Fixed Costs)	**$2,471.30**
Food Concession Revenue	$79,273.00
Food Concession Contract	$43,356.00
Food Concession contract fee (10% of revenue)	$7,927.30
Food Concession Contract (Fixed Costs)	**$35,428.70**
Merchandise Revenue	$36,428.00
Merchandise Contract	$17,826.00
Merchandise contract fee (10% of revenue)	$3,642.80
Merchandise Contract (Fixed Costs)	**$14,183.20**

Fixed Costs	
Parking Contract (Fixed Costs)	$2,471.30
Food Concession Contract (Fixed Costs)	$35,428.70
Merchandise Contract (Fixed Costs)	$14,183.20
Total Production Expense	$15,506.00
Total Operations Expense	$14,991.00
Total Advertising Expense	$20,030.00
Guarantee/Talent Cost	$160,635.00
Total Fixed Costs	**$263,245.20**

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Breakeven Analysis

Given complementary tickets are 25% of total tickets. Let x be the total tickets and hence the no of complementary tickets are (0.25*x)

($40.08-$3.05)*x + ($13.09-$3.05)*(0.25*x) = $263,245.20

$37.03*x+$2.51x = $263,245.20

$39.54x = $ 263,245.20

x = 6657.69
0.25x = 1664.42