Case: The Reel Deal

Bain, Round 1

Problem statement narrative

A movie studio client has an extensive library of hit movies from prior years. As part of your effort to find new sources of profit for the company, you are to assess the viability of digitizing the movie reels and making them available online for a fee.

Overview for interviewer

This case is intended to test the candidates ability to react to a broadly worded scenario, determine the key data needed to make a decision and navigate several basic but potentially tricky math questions. The interviewer should begin by asking the candidate what information they will need to analyze the problem and make a recommendation. A brief discussion on industry analysis (including consumer trends and competition) as well as company position (including market share and firm specialization) is appropriate, BUT this is a math case focused on profitability (other data is irrelevant). The interviewer should quickly get to the data and ultimately offer any information (see right panel) that is not asked for.

Case Type: Profitability / Market Entry

Information to be provided upon request

Expected revenues: $200/clip

100 clips per movie

50/50 revenue split per clip (50% goes to royalties for other parties)

Studio estimates there would be a 25% yearly utilization rate

Case Questions

Key elements of analysis to solve the case

Calculate expected revenue	Breakeven analysis, part 1	Breakeven analysis, part 2
What would be the revenue per movie per year?	Say the studio only had fixed costs (once the movie was digitized, any revenue is pure profit). It costs $30M to complete. The studio would like to see a positive return on any investment within 2 years.	The studio realizes upkeep of the digital files and service for the online business would have additional variable costs of $18 per utilized clip. Will they be able to break even in 2 years?
Possible follow-up and guidance to interviewer	**Possible follow-up and guidance to interviewer**	**Possible follow-up and guidance to interviewer**
($200*.5)*100*.25 = $2500 per movie per year	Give demand when asked: another studio with similar offerings is seeing demand of 8,000/ year …$30M/$2500 = 12,000 customers to break even. Assuming we can get close to the competitor's demand of 8,000/yr, we can break even within 2 years.	$100-$18=$82 CM per year per clip ($200*.5)*82*.25 = $2050 per movie per year $30M/$2050 = 14,634 customers to break even …still achievable within 2 years based on 8,000/yr forecast.

Sample Recommendation

Recommendation	Based on the data provided, all scenarios suggest the digitization move is a prudent endeavor.
Risks	General competitive threats; new technology making this strategy obsolete; assumptions do not hold true; some movies are more popular than others; partners may demand higher royalty payments.
Next Steps	Although not central to the case recommendation, potential next steps could include: deeper competitive analysis, determination of a specific technology platform, any necessary legal agreements

BONUS
Disregarding any ancillary information provided earlier, what risks exist in making this decision based on demand seen by a competitor? Some potential answers: •Competitor has large market share, making entry difficult •One year of demand data does not allow trend analysis •Data may not be accurate