

## Excercise

6. You are the head of the project selection team at Broken Arrow records. Your team is considering three different recording projects. Based on past history, Broken Arrow expects at least a rate of return of 20 percent. Your financial advisors predict inflation to remain at 2 percent into the foreseeable future.

Given the following information for each project, which one should be Broken Arrow's first priority? Should Broken Arrow fund any of the other projects? If so, what should be the order of priority based on return on investment?

Recording Project: **Time Fades Away**

Year	Investment	Revenue Stream
0	\$600,000	0
1		600,000
2		75,000
3		20,000
4		15,000
5		10,000

Recording Project: **On the Beach**

Year	Investm	Revenue Stream
0	\$400,000	0
1		400,000
2		100,000
3		25,000
4		20,000
5		10,000

Recording Project: **Tonight's the Night**

Year	Investm	Revenue Stream
0	\$200,000	0
1		200,000
2		125,000
3		75,000
4		20,000
5		10,000



### Case

## Film Prioritization

The purpose of this case is to give you experience in using a project priority system that ranks proposed projects by their contribution to the organization's objectives and strategic plan.

### COMPANY PROFILE

The company is the film division for a large entertainment conglomerate. The main office is located in Anaheim, California. In addition to the feature film division, the conglomerate includes theme parks, home videos, a television channel, interactive games, and theatrical productions. The company has been enjoying steady growth over the past 10 years. Last year total revenues increased by 12 percent to \$21.2 billion. The company is engaged in negotiations to expand its theme park empire to mainland China and Poland. The film division generated \$274 million in revenues, which was an increase of 7 percent over the past year. Profit margin was down 3 percent to 16 percent because of the poor response to three of the five major film releases for the year.

### COMPANY MISSION

The mission for the firm:

Our overriding objective is to create shareholder value by continuing to be the world's premier entertainment company from a creative, strategic, and financial standpoint.

The film division supports this mission by producing four to six high-quality, family entertainment films for mass distribution each year. In recent years, the CEO of the company has advocated that the firm take a leadership position in championing environmental concerns.

### **COMPANY “MUST” OBJECTIVES**

Every project must meet the must objectives as determined by executive management. It is important that selected film projects not violate such objectives of high strategic priority. There are three must objectives:

1. All projects meet current legal, safety, and environmental standards.
2. All film projects should receive a PG or lower advisory rating.
3. All projects should not have an adverse effect on current or planned operations within the larger company.

### **COMPANY “WANT” OBJECTIVES**

Want objectives are assigned weights for their relative importance. Top management is responsible for formulating, ranking, and weighting objectives to ensure that projects support the company’s strategy and mission. The following is a list of the company’s want objectives:

1. Be nominated for and win an academy award for Best Picture of the Year.
2. Create at least one new animated character each year that can star in a cartoon or TV series.
3. Generate additional merchandise revenue (action figures, dolls, interactive games, music CDs).
4. Raise public consciousness about environmental issues and concerns.
5. Generate profit in excess of 18 percent.
6. Advance the state of the art in film animation, and preserve the firm’s reputation.
7. Provide the basis for the development of a new ride at a company-owned theme park.

## **ASSIGNMENT**

You are a member of the priority team in charge of evaluating and selecting film proposals. Use the provided evaluation form to formally evaluate and rank each proposal. Be prepared to report your rankings and justify your decisions.

Assume that all of the projects have passed the estimated hurdle rate of 14 percent ROI. In addition to the brief film synopsis, the proposals include the following financial projections of theater and video sales: 80 percent chance of ROI, 50 percent chance of ROI, and 20 percent chance of ROI.

For example, for proposal #1 (Dalai Lama) there is an 80 percent chance that it will earn at least 8 percent return on investment (ROI), a 50-50 chance the ROI will be 18 percent, and a 20 percent chance that the ROI will be 24 percent.

## **FILM PROPOSALS**

### **PROJECT PROPOSAL 1: MY LIFE WITH DALAI LAMA**

An animated, biographical account of the Dalai Lama’s childhood in Tibet based on the popular children’s book *Tales from Nepal*. The Lama’s life is told through

the eyes of “Guoda,” a field snake, and other local animals who befriend the Dalai and help him understand the principles of Buddhism.

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Probability	80%	50%	20%
ROI	8%	18%	24%

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### **PROJECT PROPOSAL 2: HEIDI**

A remake of the classic children’s story with music written by award-winning composers Syskle and Obert. The big-budget film will feature top-name stars and breathtaking scenery of the Swiss Alps.

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Probability	80%	50%	20%
ROI	2%	20%	30%

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### **PROJECT PROPOSAL 3: THE YEAR OF THE ECHO**

A low-budget documentary that celebrates the career of one of the most influential bands in rock-and-roll history. The film will be directed by new-wave director Elliot Cznerzy and will combine concert footage and behind-the-scenes interviews spanning the 25-year history of the rock band the Echos. In addition to great music, the film will focus on the death of one of the founding members from a heroin overdose and reveal the underworld of sex, lies, and drugs in the music industry.

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Probability	80%	50%	20%
ROI	12%	14%	18%

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### **PROJECT PROPOSAL 4: ESCAPE FROM RIO JAPUNI**

An animated feature set in the Amazon rainforest. The story centers around Pablo, a young jaguar who attempts to convince warring jungle animals that they must unite and escape the devastation of local clear cutting.

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Probability	80%	50%	20%
ROI	15%	20%	24%

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### **PROJECT PROPOSAL 5: NADIA!**

The story of Nadia Comaneci, the famous Romanian gymnast who won three gold medals at the 1976 Summer Olympic Games. The low-budget film will document her life as a small child in Romania and how she was chosen by Romanian authorities to join their elite, state-run, athletic program. The film will highlight how Nadia maintained her independent spirit and love for gymnastics despite a harsh, regimented training program.

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Probability	80%	50%	20%
ROI	8%	15%	20%

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## PROJECT PROPOSAL 6: KEIKO—ONE WHALE OF A STORY

The story of Keiko, the famous killer whale, will be told by an imaginary offspring Seiko, who in the distant future is telling her children about their famous grandfather. The big-budget film will integrate actual footage of the whale within a realistic animated environment using state-of-the-art computer imagery. The story will reveal how Keiko responded to his treatment by humans.

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Probability	80%	50%	20%
ROI	6%	18%	25%

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## PROJECT 7: GRAND ISLAND

The true story of a group of junior-high biology students who discover that a fertilizer plant is dumping toxic wastes into a nearby river. The moderate-budget film depicts how students organize a grassroots campaign to fight local bureaucracy and ultimately force the fertilizer plant to restore the local ecosystem.

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Probability	80%	50%	20%
ROI	9%	15%	20%

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**Project Priority  
Evaluation Form**

Must objectives		Must meet if impacts	1	2	3	4	5	6	7
Meets all safety and environmental standards		Y = yes N = no N/A = not applicable							
PG or G rating		Y = yes N = no N/A = not applicable							
No adverse effect on other operations		Y = yes N = no N/A = not applicable							
Want objectives	Relative Importance 1-100	Single project impact definitions	Weighted Score	Weighted Score	Weighted Score	Weighted Score	Weighted Score	Weighted Score	Weighted Score
Be nominated for Best Picture of the Year	60	0 = No potential 1 = Low potential 2 = High potential							
Create a new, major animated character	20	0 = No potential 1 = Low potential 2 = High potential							
Generate additional merchandise	10	0 = No potential 1 = Low potential 2 = High potential							
Raise environmental concerns	55	0 = No potential 1 = Low potential 2 = High potential							
Generate profit greater than 18%	70	0 < 18% 1 = 18-22% 2 > 22%							
Advance state of film animation	40	0 = No impact 1 = Some impact 2 = Great impact							
Provide basis for new theme ride	10	0 = No potential 1 = Low potential 2 = High potential							
Total weighted score									
Priority									