

PREFACE

The following is a summary of highlights from a feasibility study that was prepared by the consulting firm of Kenneth Dalto & Associates for the Friends of the Alger Theater, a non-profit community organization on the eastside of Detroit.

The objective of this project was to determine the economic viability of restoring the Alger Theater. It was further intended that this report would justify either a bank loan or investment capital for renovation and to establish the theater as a self-sufficient entity.

The following criteria were used to guide the market research:

- Is there a sufficient marketplace for the Alger Theater?
- What forms of revenue generation would best suit the theater?
- Can sufficient cash flow be generated to cover both operating expenses and debt service?

The enclosed summary is an updated review of previous market studies conducted by principles of Kenneth J. Dalto & Associates and the Friends of the Alger Theater. Survey findings were based on market research interviews and mailed questionnaires with individuals representing potential users, industry experts, professional performing art and entertainment organizations, local community leaders and organizations, and local churches.

ALGER THEATER

DESCRIPTION

The “historic” Alger Theater is an 800-seat theater located at the corner of East Warren Avenue and East Outer Drive in Detroit, Michigan. The building is a brick structure with 12,000 square feet and four store fronts facing East Warren.

The theater was built in 1935, originally as a neighborhood movie house. The theater has been a landmark on the Eastside of Detroit and for the Eastside suburbs.

Besides movies, the theater has been used for live theater plays, musicals, and concerts.

EXECUTIVE SUMMARY

INTRODUCTION

The Alger Theater, once restored, has the potential to become an economically viable, self-sufficient entity. This determination was based on the findings of market research and interviews with potential users of the venue.

The renovation of the theater would provide more than just a new self-supporting institution in Detroit. The theater would function as a community anchor in generating local business and commerce, improving real estate values, and contributing to community pride, involvement and cultural development.

From a lender's viewpoint, the theater clearly meets sufficient criteria involved with a prospective loan:

- A. The building and property are substantial collateral.
- B. There is sufficient evidence (documented in this report) that the theater can generate adequate cash flow to meet operating expenses and debt service.
- C. There exists a large active and potential market that the theater can readily access.
- D. The theater organization has a broad base of active community support in the form of volunteers, membership dues, fundraising, and public channels. This base provides the theater with an immediate market and a means to keep expenses down (donated labor, services and materials).

It is our recommendation that the theater bring in experienced, competent management to run day-to-day operations.

It should also be noted that a loan to a non-profit theater is not unprecedented. Both the Baldwin Theater in Royal Oak and Ridgedale Theater in Troy (both non-profit) have received large bank loans and are operating successfully.

REVENUE GENERATION AND CASH FLOW PROJECTIONS

1. Survey interviews of 238 organizations obtained a 65% positive response to rent the Alger Theater for events.
 - 41 organizations indicated a desire to rent space.
 - 109 organizations indicated that they may rent space in the future.
 - Market research indicates that there are several hundred additional target potential users to rent space for events.
2. In addition, several dozen organizations have been interested in leasing the Alger for a permanent venue, which would help the theater to cover overhead costs.
3. Permanent venue income projects three (3) groups leasing office space for \$1,000 per month each, totaling \$36,000 annually.
4. The Alger has three street level storefronts, which will be leased for a combined monthly income of \$900, a total of \$10,800 annually. The Alger has discussed rental for storefronts with several groups and businesses in the past.
5. Rental income from users performing events at the Alger will conservatively generate \$34,000 in annual income. This figure is broken down as follows:
 - 16 weekends, 32 shows x \$700 = \$22,400
 - 15 weekdays x \$700 = \$10,500
 - 2 holiday shows x \$700 = 1,600

The market survey indicates a user base representing a larger volume of rentals than these figures. With aggressive marketing, the theater should be able to increase this revenue source.

6. Equipment rentals for theater users will generate a small revenue base by marking up cost, the income is estimated at \$3,000.
7. The theater group will show a film series for 20 weekends out of the year, totaling 50 shows (Friday, Saturday and 10 matinees). Survey estimates calculate 200 tickets per show, at \$5 each.

Box Office	\$1,000
Minus Cost	- 150
Plus Net Concessions	<u>+ 200</u>
Total Gross Profit	\$1,050
 Times 50 Shows =	 \$52,500

Revenue Generation and Cash Flow Projections cont.

8. The theater will run a concession stand, which should net \$1.00 per ticket sold (calculated into above figures). Figures are based on industry estimates. Non-movie concessions (net) should generate an additional \$4,300 in revenues from 43 events at \$100 net each.
9. The theater group will continue to raise dues from members at \$30 per member. The organization presently has over 200 members and expects to reach 350 members when the theater is renovated. Membership should total \$10,500 annually.
10. The theater group will hold four (4) fundraising events each year. The organization has held several jazz, blues and contemporary music concerts in the past. Based on former events, the group should be able to net \$4,000 per fundraiser, totaling \$16,000 per year.

Numerous musical groups and rock promoters have been contacted who have committed themselves to help stage fundraising events.

ALGER THEATER PROJECTIONS

REVENUES	Annual	Total
Permanent Venue	\$36,000	
Storefront Rentals	10,800	
Rental Events	34,500	
Movies, Net	52,500	
Rental Equipment, Net	3,000	
Non-Movie Concessions, Net	4,400	
Membership Dues	10,500	
Fundraisers (Friends of the Alger)	16,000	
	TOTAL	\$167,700

EXPENSES	Annual	Total
Debt Service	\$48,267	
Manager	35,515	
Publicity	21,500	
Maintenance	31,200	
Utilities	30,360	
	TOTAL	\$166,842

SCHEDULE OF MOVIE EXPENSES AND REVENUE

Tickets Sold	Box Office Gross (\$5/ticket)	Net Concessions	Minus Movie Cost	Gross Profit
100	\$ 500	\$ 100	\$ (150)	\$ 450
200	1,000	200	(150)	1,050
250	1,250	250	(150)	1,350
300	1,500	300	(150)	1,650
400	2,000	400	(150)	2,250
500	2,500	500	(150)	2,850

Explanation:

a) Assumes ticket prices at \$5.00 per ticket, comparable to other revival and discount houses

b) Concessions (food and beverage) are calculated at \$1.00 per ticket sold, based on interviews with concession distribution companies and movie theaters.

c) Movie rentals and shipping average \$300.00 per movie. Movies will be shown twice, cutting the per-showing cost by one-half.

SCHEDULE OF EXPENSES

	Total
1) Debt Service:	
assumes a \$250,000 loan at 9% over 7 years; \$4,022.28 per month	\$48,267
2) Manager:	
\$25,000 salary plus sales commission of 10% of gross sales	35,515
3) Publicity:	
Printing season schedules and flyers;	11,000
Postage (non-profit rate)	3,500
Paid-for ads	7,000
	18,500
4) Maintenance:	
Office \$50 per month	600
Insurance \$1,000 per month	12,000
Repairs \$750 per month	9,000
Supplies \$200 per month	2,400
Materials \$200 per month	2,400
Equipment \$400 per month	4,800
	31,200
5) Utilities:	
Water \$80 per month (average)	960
HVAC \$1,950 per month (average)	23,400
Electric \$325 per month (average)	3,900
Telephone \$175 per month (average)	2,100
	30,360
6) Labor will be volunteer	
7) Many services, supplies and materials will be donated by members	
8) The theater will have free publicity from Community organizations	

SUMMARY OF MARKET FINDINGS

1. Target markets for rental performance income should include:
 - a. Performing arts groups; theater, dance, music, comedy
 - b. Community and church groups for events
 - c. Film producers for shootings and film screenings
 - d. The rock video production market
 - e. Schools for graduation ceremonies

2. The survey indicated that the types of events most in demand in the local community include (ranked in order):
 - a. Family entertainment
 - b. Movies
 - c. Children's program
 - d. Performing arts
 - e. Fundraising benefits for community organizations

3. The northeast Detroit communities make up some of the nicest neighborhoods in Detroit. This community has households with adequate family incomes, which represent a strong base of disposable income to support events at the Alger. Residents have pride in their homes and neighborhoods and keep the area safe and clean.

4. Target market demographics include (rounded):

Total Population	250,000
Total Households	100,000
Households with income over \$35,000	65,000
Adults 25 and over	150,000
Median Income	\$40,000
Average Home Value	\$90,000

Summary of Market Findings cont.

5. The live theater and dance performing market in the Detroit area is fairly large with a broad popular support. Michigan has more community theaters than any other state in the nation.
6. The Detroit film-producing industries ranks number one for industrial films in the United States, shooting more film footage than Los Angeles and New York combined.
7. Detroit is a music capital, having produced more rock, jazz, blues, and R & B professional musicians than most other cities. Detroit is ranked as one of the top markets in the United States for live and recorded music
8. The marketing and publicity mediums best suited for the Alger Theater are:
 - a. Networking with community, church and performing arts groups
 - b. Direct mail flyers and season schedules to qualified mailing lists
 - c. Telemarketing for memberships, subscriptions and for renting space
 - d. Publicity through community and church newsletters; free ads and inserts in newsletters
 - e. Free listings of events in all area newspapers, magazines and entertainment web sites
 - f. Advertising in the Metro Times, Real Detroit and the Monitor
 - g. Handout flyers at local events and shopping areas
 - h. Posters and signs
 - i. Posting on local bulletin boards at stores, restaurants, coffee shops, etc.
 - j. E-mail messages sent to mailing lists, members and supporters

GENERAL RECOMMENDATIONS

Recommendations based on survey findings include:

1. There is an old adage that “theater must be run as a business or it will fail as art”. The Alger Theater must be run professionally with competent management and aggressive marketing to adequately compete in the marketplace. The ultimate success of this entity will depend upon becoming self-sufficient in generating adequate cash flow.
2. Continual success will be premised upon the theater’s reputation. This is what ultimately draws the users and the audience to the space. Standards must be met with three important criteria for any production:
 - Quality of the product
 - Substance of the material; and
 - Economic viability of the product
3. People will go out of their homes and pay for entertainment. The Alger, to succeed, must be attentive to the needs of the community, developed through continual communications.
4. An experienced and competent theater manager should be hired full-time. This individual should be accountable to the Board of Directors and be responsible for theater maintenance, administration, booking shows, marketing and publicity, and theater cash flow.
5. The Board of Directors should be expanded to invite professionals from performing art and entertainment organizations.
6. Professionals, experienced in theater restorations, should be consulted in the design and construction before and during renovation of the theater.
7. Ultimately, the theater’s goals should be to become a center for the performing arts. This goal would best suit the long-term interests of the local community, and the long-term success of the theater.
8. The theater can become a focal point for a coalition of professional performing organizations, further ensuring the theater’s success.