CASE 15

PLANET HOLLYWOOD: THE PLATE IS EMPTY

INTRODUCTION

"*The pressure to expand needs to be reduced*," thought William Baumhauer, president of Planet Hollywood, on his return to Miami. The latest financials were shaky, and Planet Hollywood had lost money in the first nine months of 1998. Baumhauer considered Planet Hollywood's situation while reclining in his seat.

COMPANY BACKGROUND

Mission Statement

> To provide the most exciting and valuable guest experience in themed-dining and entertainment while continuing to build upon the strengths we have developed in becoming the leader of this dynamic sector . . .
>
> . . . To concentrate all our attention on providing our guests with an exciting, inside look at Hollywood, combined with delivering exceptional food, outstanding quality merchandise and attentive, courteous service that provides total guest satisfaction.

Planet Hollywood was established in October 1991 by Hard Rock Cafe veteran Robert Earl and film producer Keith Barish. They decided to capitalize on the universal appeal of movies, sports, and other entertainment-based themes. Starting in Orlando, Florida, the company expanded, opening restaurants in prime tourist locations in the United States and abroad. As of December 27, 1998, it had ninety-five Planet Hollywood restaurants located in thirty-one countries throughout the world, of which sixty were company-owned. Former chairman Keith Barish, CEO Robert Earl, and investor Ong Beng Seng each own about 20 percent of the company.

Celebrity Involvement, Advertising, and Promotion

The restaurants are decorated with movie-star and show-biz memorabilia, serve Californian cuisine, and sell movie-themed merchandise. Diners are entertained by custom-design videos, recorded music, movie montages, and live music events.

Hollywood stars, such as Bruce Willis, Sylvester Stallone, Demi Moore, Arnold Schwarzenegger, and Whoopi Goldberg promote the company and allow it to use their names, pictures, and selected memorabilia in advertising, promoting, and operating its units. The company generally offers these celebrities shares or options to acquire shares of its common stock. It is continuing to expand its roster of celebrity stockholders, with an emphasis on new, up-and-coming stars, in order to appeal to broader segments of consumers.

The company attracts new customers through word-of-mouth, the visibility of its branded merchandise, radio and print advertising, billboards, and extensive media coverage. It also issues vouchers for food and merchandise purchases to tour operators in an effort to encourage tourists to include Planet Hollywood's units on their itineraries. Moreover, the company hosts fundraising parties for local charities at its units with the support of celebrities.

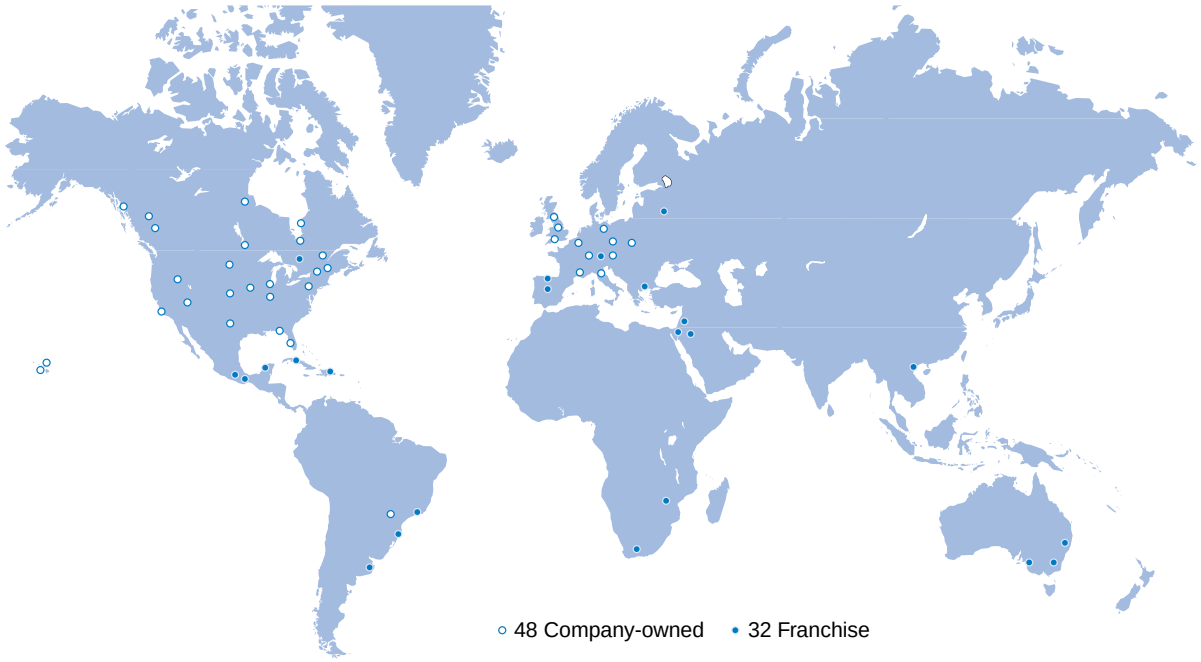
Franchise

A significant number of overseas theme-restaurant units have been franchised (refer to Exhibit 1 for pictorial representation). The company's standard franchise agreement grants the exclusive right for up to fifty years to operate restaurant and/or merchandise locations and sell branded merchandise in a specified market and to use Planet Hollywood's brands and trademarks. In return for the franchise, the company is paid initial nonrefundable fees ranging up to $2 million upon execution of the franchise agreements. In addition, there are royalties based on a percentage of the total revenues from the units, usually 3 percent to 10 percent of food and beverage revenues and 5 percent to 15 percent of merchandise revenues.

The franchisee assumes responsibility for the development and construction of the unit, including all costs. The company provides limited pre-opening consultation services to the franchisee and has the right to reject sites, plans, and proposals that do not meet its specifications or standards. The franchisee is obligated to operate the unit in accordance with Planet Hollywood's operating manual, which provides strict guidelines for the unit's design, decor, and furnishings, dress style of the staff, food menus, and operating procedures. The arrangements also include specific requirements regarding accounting and

This case was prepared by Louisa Chan, Anne Chu, Rajen Lakhani, and Viral Shah of the Fox School of Business and Management at Temple University under the supervision of Masaaki Kotabe of Temple University for class discussion rather than to illustrate either effective or ineffective management of a situation described (August 1999).

EXHIBIT 1
1999 PLANET HOLLYWOOD LOCATIONS WORLDWIDE: 80 RESTAURANTS



records and the leasing and display of the company's memorabilia.

Investments

To date, Planet Hollywood has promoted its brands primarily through the operation of theme restaurants that provide a unique dining and entertainment experience in a high-energy environment. Its strategy is also to capitalize on brand recognition across a wide range of businesses, in addition to the restaurants. To reflect this diversification, it has recently organized its operations into five divisions (see Exhibit 2).

In 1996, the company, with the participation of MBNA, issued Planet Hollywood Visa cards, giving cardholders priority seating. It also opened stand-alone retail stores called Planet Hollywood Superstores and three Cool Planet ice cream and dessert cafes (with Dreyer's Grand Ice Cream) in California.

In 1997, Saudi Prince al-Waleed bin Talal formed an alliance with the company to develop Planet Hollywood restaurants in the Middle East and Europe. Moreover, Planet Hollywood plans to build several complexes that combine theaters, restaurants, and stores with theater chain AMC, as well as two Manhattan hotels.

Planet Hollywood's second venture is the Official All Star Cafe, a sports-themed chain of nine restaurants publicized by stockholders such as Tiger Woods, Shaquille O'Neal, and Andre Agassi. The Official All Star Cafe offers homestyle cooking and sports souvenirs.

Another concept that Planet Hollywood has introduced is a music-themed restaurant called Sound Republic. The first one was opened in London in 1998, but has not proved as successful as hoped.

SALES & PROFIT

The company's 1998 financial results were extremely disappointing. Increased competition and a strategy that had become too diverse led to a decline in sales from $475.1 million in 1997 to $387.0 million in 1998 (see Exhibits 3, 4, and 5). As a result of the decline in sales and the company's decision to refocus its business strategy, significant impairment and restructuring charges were recorded. These charges, coupled with higher operating costs at both the restaurant and corporate levels, resulted in a net loss of $243.9 million in 1998, compared to net income of $8.3 million in 1997.

With its new strategies, Planet Hollywood expects improved results for 1999. The company estimates sales of $400 million, which assumes same-store sales declines of 5 percent for 1999 and capital expenditures of $40–45 million.

EXHIBIT 2
PLANET HOLLYWOOD BUSINESS DIVISIONS

1. *Consumer Products Division*
   - Cool Planet ice cream (licensing agreement with Dreyer's)
   - Planet Hollywood Barbie (licensing agreement with Mattel)
   - Planet Hollywood—The Game (licensing agreement with Hasbro)
   - Planet Hollywood Visa card
2. *Food & Beverage (restaurants) Division*
   - Cool Planet
   - Official All Star Cafe
   - Planet Hollywood
3. *Lodging & Gaming Division*
   - Las Vegas project (joint venture with Aladdin Gaming to develop Las Vegas hotel and casino)
   - Official All Star Hotel (sports-themed hotel to be developed in New York City)
   - Planet Hollywood Hotel (movie-themed hotel to be developed in New York City's Times Square area)
4. *Retail & Merchandising Division*
   Glasses, hats, jackets, key-chains, pins, sweatshirts, T-shirts, watches
5. *Theaters & Entertainment Division*
   Planet Movies by AMC (joint venture with AMC to develop megaplex theater/entertainment centers)

NEW STRUCTURE: EXPANDING THE PLANET HOLLYWOOD UNIVERSE

The most significant plan adopted by the company in 1997 included a new structure to align the company into five operating divisions (refer to Exhibit 2 for details):

- Consumer Products
- Food & Beverage
- Lodging & Gaming
- Retail & Merchandise
- Theaters & Entertainment

Each division has unique operating characteristics that are now formally organized, enabling its employees to most effectively manage their respective activities while leveraging their strengths and expertise. The new structure also enables management to align the company's initiatives for growth more closely to the industries and economic sectors that will fuel its expansion in the future.

RESTAURANT FOCUS

Food & Beverage Division

The Food & Beverage division is primarily responsible for the development of Planet Hollywood's theme

EXHIBIT 3 Sources of Revenue

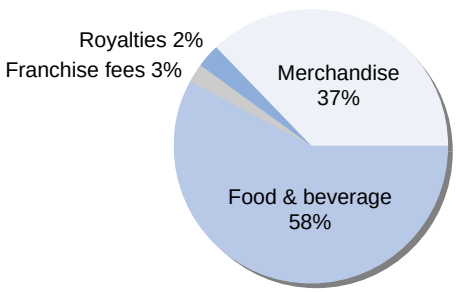


EXHIBIT 4 Revenue by Region

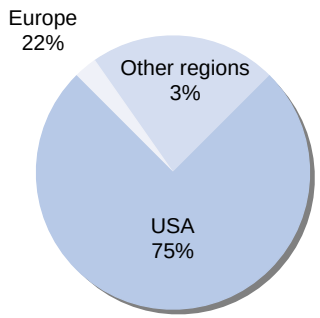
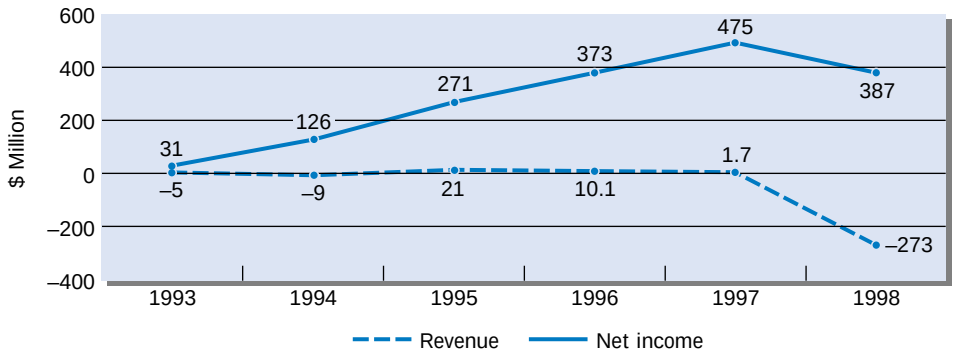


EXHIBIT 5
SALES & NET INCOME



restaurants. The restaurants are characterized by distinctive design features and are generally located at high-profile sites in major tourist markets. Units generally range in size from approximately 12,000 to 36,000 square feet and in seating capacity from 230 to 600 persons. They offer popular cuisine, attentive service, and an atmosphere of excitement created by combining unique layouts and decor with custom-designed videos and audio soundtracks.

Retail & Merchandising

The Retail & Merchandising division is primarily responsible for the development and sales of products and merchandise through retail stores located within the company's theme restaurants, as well as stand-alone retail stores and other distribution channels, including mass market and specialty retailers. Management believes that Planet Hollywood will derive significant benefit from the creation of a separate division that focuses on sales of merchandise. Merchandise sales yield higher operating margins than do food and beverage sales and provide additional off-site promotion for the brands.

All merchandise display the colorful and distinctive trademark and logo design and typically the name of the city in which the unit is located, which enhances the collectible nature of the items. Each unit's product mix varies to meet the demand of the particular market in which the unit is located. In cooperation with some of its celebrity stockholders, the company has also developed a line of "celebrity series'' merchandise, which includes artwork and designs created by a celebrity. A portion of the proceeds from sales of these items will go to a charity chosen by the celebrity.

Planet Hollywood continually updates and refreshes its merchandise mix to reinforce the appeal and collectibility of its branded merchandise, such as the introduction of seasonal product lines two times per year.

CURRENT SITUATION

The U.S. restaurant business is expanding rapidly. Now, U.S. citizens spend more than $700 billion on food each year, and about 45 percent of that is spent on eating out. Since the 1970s, dual-income families have been the norm, generating more disposable income for eating out while they tend to have less time for cooking at home. The demographic shift, combined with the restaurant industry's ability to deliver a consistent product at a reasonable price, has resulted in a generation of U.S. consumers who eat out. U.S. restaurant industry sales reached $320 billion in 1997, up 4.2 percent from 1996, according to the National Restaurant Association.

However, the theme restaurant business has recently moved in the opposition direction, especially Planet Hollywood. From a high above $30 a share, Planet Hollywood's shares now hover around $3, down more than 80 percent in the past year alone.

Although the elaborate decoration is attractive, customers' excitement diminishes as the frequency of their visits increases. Customer who come in for the first time get a feeling of "Wow!'' However, the second time, the excitement is just not as great. As a restaurant analyst had said, the theme restaurants "are not the best restaurants and not the best places to go for entertainment. You go there once, twice, maybe three times to show a friend. That's it.'' Thus, it is difficult for a theme restaurant like Planet Hollywood to retain its profit, and even keep the earnings rising year after year.

While the building, structure, and decoration are an important element of theme restaurants, the food is what keeps people coming back again and again. Conse-

quently, quality is extremely important. However, a theme restaurant costs a great deal to develop. Thus, it has to charge higher prices to make money, which may act as a deterrent to repeat business. Many people complain that Planet Hollywood is serving moderate food for a high price.

What is Planet Hollywood doing to lure repeat business? In order to resuscitate and build up new excitement for its customers, Planet Hollywood is moving forward with a series of consumer-oriented initiatives. In early 1999, the company announced some strategies to revitalize the Planet Hollywood Concept:

- Introduce a new menu featuring quality food at lower prices in order to increase repeat business.
- Update the look of Planet Hollywood restaurants. The company is planning to relaunch its Planet Hollywood concept, including a $10–12 million refurbishment program to make the look of its restaurants more contemporary and to expand the merchandise shops to better display products to customers.
- Launch a new merchandising strategy.
- Initiate a new marketing and public relations strategy, aimed at delivering a fresh, exciting, and consistent message to consumers.

With the business downturn, Planet Hollywood is feeling a capital crunch. It is holding back expansion. Consequently, the company is considering whether it should franchise all the Planet Hollywood restaurants outside of the United States except for two of its flagship outlets in London and Paris. Currently, there are eighty Planet Hollywood worldwide, and thirty-two of them are franchised.

COMPETITION: THEME RESTAURANTS

In the theme restaurant industry, there are many specially designed outlets; namely, Hard Rock Café, Dave & Buster's, Rainforest Café, Fashion Café. Besides Dave Buster's, almost all of the theme restaurants have similar difficulties. They are all facing the problem of encouraging repeat business. They cannot retain customers' "wow'' appetite after a while. The following analysis describes a sample in further detail.

Major Competitors

Hard Rock Café (Theme: Music). A subsidiary of the London leisure firm The Rank Group, Hard Rock Cafe international owns or operates about ninety cafes (about a third in the United States in more than thirty countries. The decorations revolve around the music theme. Some of these music-related products and programs include the Hard Rock Live television series, which launched on VH1 in March 1997 and has recently begun its second season; Hard Rock Records; Hard Rock Live! State-of-the-art live-music venues, including sites in Orlando and Mexico City; Hard Rock Beer; and Hard Rock Hotels. Recently, the company announced an alliance with the National Basketball Association to create the NBA restaurant concept.

Similar to Planet Hollywood, Hard Rock Café is focusing on memorabilia, and it is facing the same difficulties because memorabilia can no longer retain the customer's excitement. Although not many customers complain about Hard Rock Café's quality of food, the price is considered high. Similarly, Hard Rock Café focuses market as Planet Hollywood does, which is another factor that narrows its customer base.

Now, Hard Rock Café is also suffering from profit slump. However have a capital crunch, like its competitor does, as it has no pressure from for rapid expansion. In addition, it has not opened in areas with a low tourist therefore less reliant on the local market.

Dave & Busters (Theme: Computer-Animated Games). The restaurant has a unique theme of entertainment from shuffleboard to virtual reality games. It operates sixteen restaurants and entertainment complexes. It offers a full menu and a bar of fifty brands of beers. The diversification of the games attracts customers from age 16 to 80. However, with its pricing strategy ($2/game), D&B is obviously targeting adults. Thus, the complexes host mostly 25- to 45-year-olds in Atlanta; Chicago; Cincinnati; Dallas; Denver; Detroit; Hollywood, Florida; Houston; North Bethesda, Maryland; Ontario, Irvine, and Orange, California; Philadelphia; and Rockland County, New York.

D&B is a rare case of success among the theme restaurants. It has not lost its charm, as the memorabilia includes a lot of games (including virtual reality and other expensive and hi-fi game sets), which play an important role in retrieving the customer interest. Recently, the company even set up a separate department targeting amusement renewal aimed at providing the customer with innovative games and entertainment.

Unlike Planet Hollywood and Hard Rock Café, D&B focuses on the local market. The average D&B restaurant has about 750,000 customer visits a year, about 70 percent from repeat patrons. In order to segment the local patrons, the price of food in D&B is relatively reasonable. Especially, it charges less for drinks compared to its competitors. Customers tend to spend more time in the restaurant for games rather than eating and continue to drink while they are playing. As the profit margin for drink is more than for food, the profit of D&B is growing. As Chas Michel, CFO of Dave & Buster's said, "A concept as successful as ours has to

manage its growth to remain successful."[1] Perhaps the success of D&B is due to its interactive nature which is lacking in the other theme restaurants.

Although Dave & Buster's is a listed company, it is growing rapidly instead of extensively. Right now, it does not have a presence outside North America.

Rainforest Café (Theme: A Tropical Rainforest Environment). As the name suggests, the chain of restaurant creates an atmosphere filled with robotic monkeys, live parrots, and thunderstorms. It takes advantage of the trend to be environmentally friendly. It portrays itself as socially responsible, for example, by helping the Amazon. In addition, Rainforest Café has many gimmicks, starting as soon as a customer asks for a reservation. Reservations are made under the name from the animal kingdom (e.g., the Koala), rather than the customer's name.

At present it has thirty restaurants in Canada, Mexico, United Kingdom, Hong Kong and the United States. The company is more oriented toward the family market and does not differentiate between tourists and locals.

There has been a 48 percent increase in net sales in February 1999 compared to the same period of 1998. But most of this is due to the opening of new restaurants during this period. Comparable store sales open for at least eighteen months have dropped by 11 percent, and the forecasts are not very optimistic. The Rainforest Café is a relatively new concept compared to Planet Hollywood and Hard Rock Café and it still remains to be seen how far it can expand.

Minor Competitors

Ark Restaurants (Theme: Unique Theme for Each Restaurant). Ark Restaurants is a chain of twenty-one restaurants as well as two bakeries. Most of the restaurants are based in the Big Apple, New York. It also has four restaurants in Las Vegas. To avoid cannibalization, due to its condensed location area, Ark restaurants have different themes and menus in its restaurants. Net sales in January 1999 dropped by 1 percent compared to that of 1998.

Country Star Restaurants (Theme: Country-Music Restaurants). It owns and operates a country-music-themed restaurant in Hollywood, California. It has interactive audiovideo kiosks featuring country music and monitors as its memorabilia.

Dick Clark Restaurants (Theme: Based on the Famous Celebrity Dick Clark). Another California-based Company, Dick Clark's American Bandstand Grill is a chain of eight restaurants that showcase Clark's music memorabilia. Clark, one of the most famous personalities in the entertainment industry, owns about three-fourths of the company. The company has had a low but steady growth during the last two years.

Lettuce Entertain You (Theme: Unique Theme for Each Restaurant). Chicago-based Lettuce Entertain You Enterprises tosses in a lot of fun at its more than sixty restaurants (under different names), most of which are in the immediate metropolitan area. With about thirty different concepts, Lettuce Entertain You avoids the stigma of uniformity associated with chain eateries, allowing the company to capture customers interested in fun dining experiences at upscale restaurants.

All of the restaurants reflect the creative genius of co-founder Richard Melman who owns about 60 percent of the company. At present, the company has a good 30 percent growth in revenues from 1996 to 1997. It still operates as a private company.

CONCLUSION

Landing in Miami, Baumhauer reviewed the essence of his thoughts. Planet Hollywood is a global brand known to hundreds of millions and could prove highly profitable if the typical customer now eating there twice a year came back just one more time. "*If we can get that number up to three times a year, we'll be back rocking and rolling.*"

DISCUSSION QUESTIONS

1. What is Planet Hollywood's target market segment? How could the restaurant chain attract repeat customers?
2. Discuss Planet Hollywood's entry strategy. Should it expand by franchise?
3. Discuss the adequacy of Planet Hollywood's marketing-mix (4Ps) strategy.

[1]DALLAS—(BUSINESS WIRE)—Jan. 25, 1999, Dennis Paine.