

Dynamics of Strategy Course – example of Individual Assignment, part 2.

Professional Services Microworld: discussion of a Related Situation – Cirque de Soleil

TEACHER'S NOTE – This paper is provided for guidance of students taking the LBS Electives in Strategy Dynamics and Strategic Modelling. The paper was produced to fulfil part 2 of an Individual Assignment. Part 1 (not included here) is a pair of strategy experiments carried out with the Professional Services Microworld. This second part of the assignment is to describe, portray and analyse a real-world case that exhibits elements of a strategic architecture and managerial implications that bear some similarity to those that arise in the Professional Services Microworld. Critical to this assignment is the *explicit* representation, with time-charts, of data relating to the case.

The paper is reproduced with the kind permission of Neil Ross Russell, MBA 2003. Although a good example of this assignment, the paper is not guaranteed to be error-free, or to encompass all the potential analysis. Note that it was carried out entirely on the basis of information obtained from outside the organisation.

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As a company that is “only as good as its last performance”, Cirque de Soleil faces similar issues to those analysed above. Cirque de Soleil produces live shows; both touring and static, based on traditional circus skills, it has grown from a loose collection of street performers into a business that turns over \$CAD525mn a year. To grow, the company has produced a stream of original productions, rather than putting together a second cast to perform the same show. The table below shows the shows that Cirque troupes are currently performing.

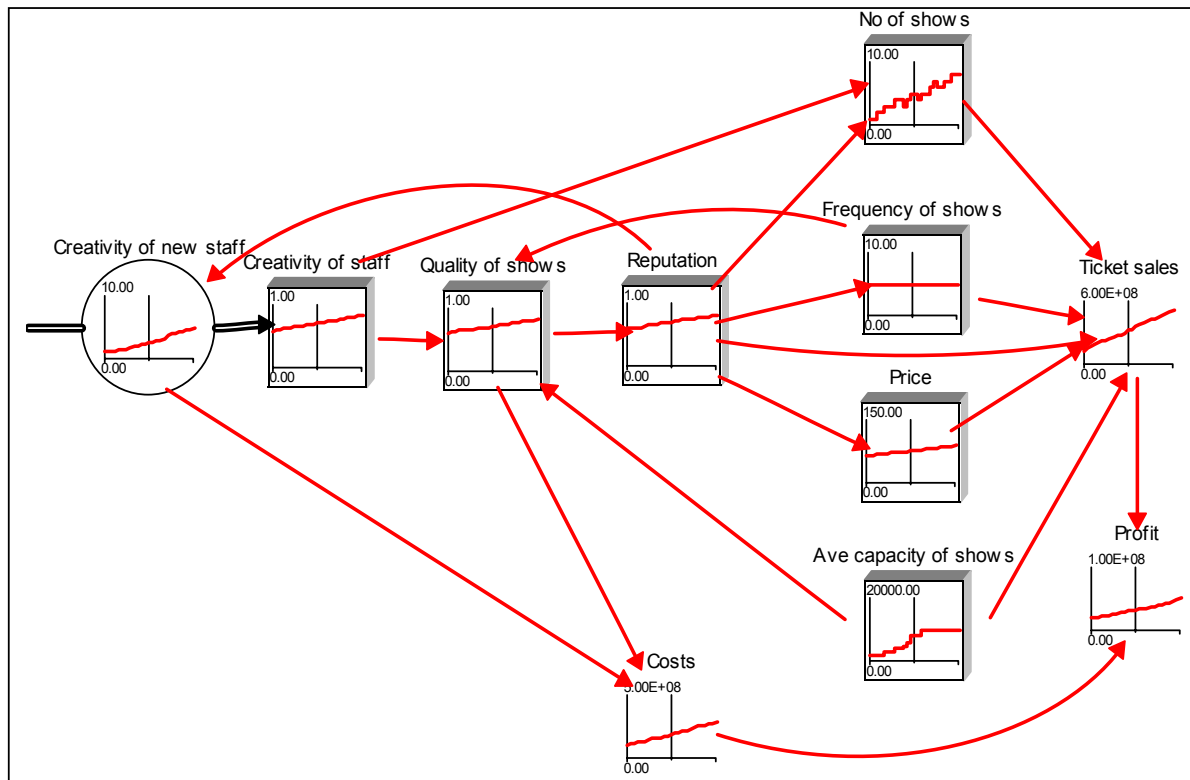
Cirque du Soleil shows 1992-2002

SHOW	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
LE CIRQUE DU SOLEIL											
LA MAGIE CONTINUE											
WE REINVENT CIRCUS											
NOUVELLE EXPERIENCE	LAS VEGAS										
FASCINATION	JAPAN										
SALTIMBANCO	CANADA U.S.		JAPAN		EUROPE		CANADA		JAPAN / ASIA		EUROPE
MYSTERE							LAS VEGAS				
ALEGRIA				CANADA / U.S.	JAPAN		EUROPE		CANADA		ASIA
QUIDAM							CANADA / U.S.			EUROPE	CANADA U.S.
"O"								LAS VEGAS			
LA NOUBA							DISNEY WORLD RESORT ORLANDO, FLORIDA				
DRALION								CANADA / U.S.			
VAREKAI											CANADA U.S.

In this analysis of Cirque, I will argue that, given the dynamic architecture of the situation in which they operate, leveraging the reputation of the company to launch entirely new shows was the most efficient way for them to have grown the business. I will further demonstrate that future growth in this way will become increasingly difficult.

The critical success factors for Cirque are the attributes of their key resources. Obviously, the income that they generate depends on “hard” resources such as the number of shows that they perform, the price they charge, the capacity of the venues etc. These are meaningless, however, without also considering the “soft” factors such as the creativity of the show designers, the quality of the shows and the reputation of the company.

The company's strategic architecture, showing growth to date, is pictured below¹:



TEACHER'S NOTE – 'Quality of shows', 'Frequency' and 'Price' are not in fact resource-stocks, as shown here.

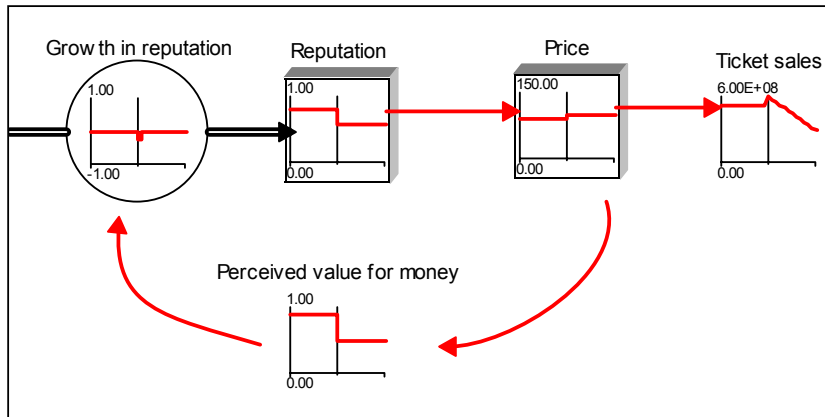
Cirque has an excellent reputation and most of its shows are sold out, therefore in order to expand the business; the management would have been faced with 5 basic choices:

- Raise ticket prices
- Increase the frequency of existing shows
- Increase the capacity of the shows
- Reduce costs
- Create more shows

Raise ticket prices:

Cirque is remarkably sophisticated when it comes to setting a ticket price. Before entering a new city, they will complete extensive analysis of the socio-demographics, economic prosperity, entertainment trends etc within the city in order to understand exactly how much they are able to charge. While it may be possible to increase short-run revenue by increasing the ticket price, there is a danger that such a move would damage the reputation on which the business relies via a feedback loop involving the perceived value for money that the show offers, as shown below:

¹ For the sake of simplicity, I have assumed that ticket sales account for 100% of Cirque's revenue. In fact this is 88%. The remaining 12% comes as a result of sponsorship, food and beverages, merchandising etc and is therefore largely a function of the number of tickets sold.

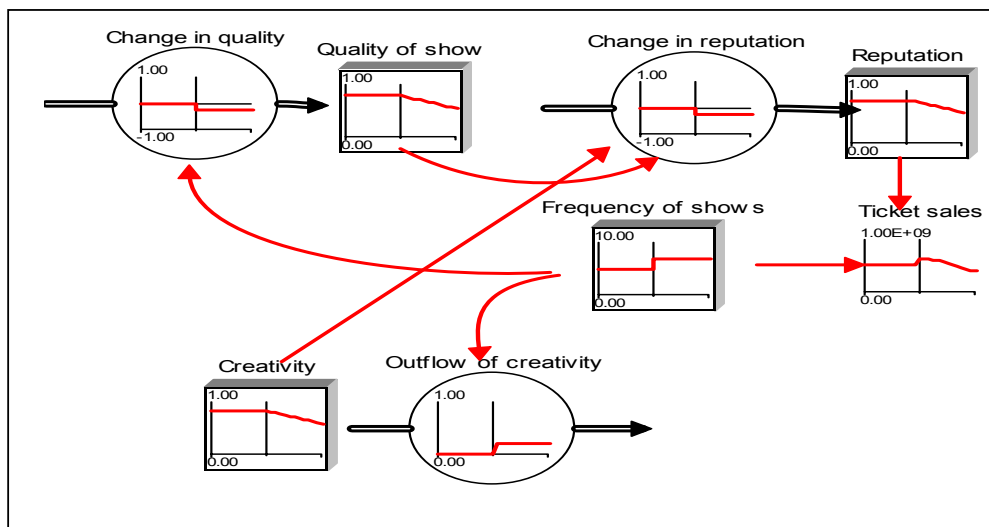


TEACHER'S NOTE – 'Reputation' is properly treated here as a resource-stock.

Increase the frequency of existing shows:

Compared to similar shows, Cirque performers are treated very well. The management believes that if the performers are not enjoying themselves, they will not perform well. As well as better travel and accommodation, this manifests itself in more days off than other touring shows.

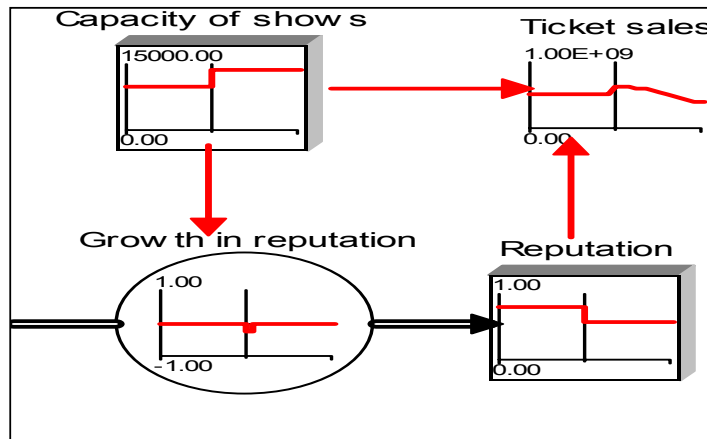
There is scope, therefore to increase the number of shows that any one of the troupes performs and this would result in a short-term increase in ticket sales. The belief of the management, as shown in the diagram below, is that this would be counter-productive in the long run. An increase in the number of shows would cause ongoing damage the quality of the show as the performers lose motivation and become tired (these are very physical shows), and would also affect the company's "stock" of creativity. By running the performers into the ground, the management may damage the company's ability to continually create spectacular shows.



TEACHER'S NOTE – Since such assignments are typically carried out with little or no insider knowledge, much information, especially on soft issues such as 'quality of show', is rarely available. In such cases, it is preferable, as here, to make well-informed, illustrative estimates than to ignore important factors.

Increase the capacity of the shows

With a few exceptions (e.g. London's Albert Hall), the Cirque de Soleil does not use "normal" venues. Cirque's travelling troupes come equipped with a Big Top tent and the fixed shows are all hosted in purpose-built venues. The reason for this is that the venues are designed to complement the performance of the individual shows and are seen as an integral part of the Cirque experience. In the long run it is possible for Cirque to design and build bigger venues, which may increase revenues temporarily, however the danger is that this would dilute the experience and therefore damage the reputation, as shown below.

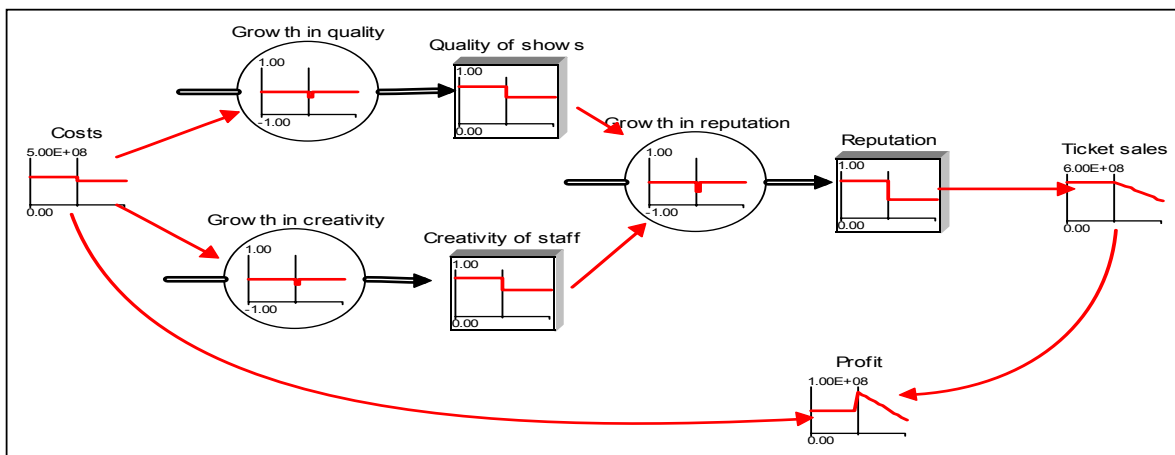


Reducing Costs

The quality of life that Cirque performers enjoy is just one of the "additional" costs that the management incur. To maintain the creative lifeblood of the company, Cirque management spend considerable amounts ensuring those artists who are at the heart of the company have the space, environment and infrastructure to create new shows. In addition, artists and performers are encouraged to occasionally work on projects outside the company in order to ensure a constant inflow of this creativity. This is seen as facilitating the creative process and is something they are prepared to pay for.

Similarly, they will not cut costs when it comes to the production of their shows. One example of this is the fact that all of the material used in their shows is dyed in-house to ensure that if a replacement is needed it will be exactly the right colour. Anyone who has seen a Cirque show is able to testify that no expense is spared in production.

Therefore, one could argue that there are some costs that could be cut and this would result in a short-term increase in profits. However, as the diagram below demonstrates, to do this would damage the creativity of the company and the quality of the shows to the extent that the initiative would be counter-productive in the long-run.



Create more shows

The number of different shows is the only resource that Cirque can increase without damaging their reputation and the long-term health of the business. An increased number of shows enhances the company's reputation because more shows means a bigger total audience, and therefore more word of mouth recommendations. In addition, producing new shows rather than replicating existing ones encourages existing enables Cirque to develop some loyalty with their customers, further improving the reputation. The company's reputation is the attribute that supports the core of the resource architecture, therefore, by growing the company through expanding the number of shows, the management of Cirque have been reinforcing the strength of their strategic position.

To date, Cirque has been successful at creating new shows that add to (or at least do not damage) the reputation of the company. The problem arises when the quality of the new shows being produced is lower than the current average. Any company with a reputation as good as Cirque's faces a tough battle to maintain it in the face of new competition, changes within the company (e.g. the main creatives moving on), changing tastes etc.

Therefore, future growth for Cirque depends on new recruits adding to the overall stock of creativity. In practice it is very difficult to isolate and measure an attribute such as "creativity", especially when recruiting new staff. The diagram below shows how Cirque have grown the company to date, however the supply of people with these unique talents is limited, and future growth through this route will become increasingly difficult.

