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| Entertainment Industry Analysis |
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|  |
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Table of Contents

***Introduction*** 4

***Dominant Economic Indicator*** 6

**1. Market Size:** 6

**2. Scope of Competitive Rivalry:** 5

**3. Market Growth Rate:** 7

**4. Numbers of Companies in the Industry:** 7

**5. Customers:** 9

**6. Degree of Vertical Integration:** 10

**7. Ease of entry/exit:** 10

**8. Technology/Innovation:** 10

**9. Product Characteristics:** 11

**10. Scale Economies:** 11

**11. Experience Cure Effects** 12

**12. Capacity Utilization** 11

**13. Industry Profitability:** 13

***Six Forces of Competition*** 13

**1. Threat of New Entrants** 13

**2. Bargaining Power of Suppliers** 14

**3. Bargaining Power of Buyers** 14

**4. Threat of Substitute Products/Services** 15

**5. Intensity of Rivalry among Competitors** 15

**6. Relative Power of Other Stakeholders** 16

***Competitive Position of Major Entertainment Companies*** 17

***Competitor Analysis*** 19

**News Corp.**  19

**Time Warner** 20

**Viacom Inc.** 21

**CBS** 21

***Key Success Factors*** 22

***Industry Prospects and Overall Attractiveness*** 25

***Factors Making the Industry Unattractive*** 27

**Profit Outlook** 28

***Conclusion*** 30

***References***: 31

Introduction

The following report is an analysis of the diversified entertainment industry. The entertainment industry is a constantly evolving group of corporations with limited competitive pressures. Revenue trends in certain core segments, including broadcast television, media networks and radio, tend to vary with consumers' and advertisers' preferences towards new forms of media (Value Line, 2010). As long as people have had discretionary time and money, the entertainment industry has thrived, and as personal incomes grew, so did the industry. Although the entertainment industry has proven to be quite resilient even in times of tough economic conditions, the most recent economic downturn has had a noticeable negative impact. Even with many large mergers and acquisitions throughout 2009 and 2010, including the Disney’s acquisition of Pixar and Marvel, and the planned merger of Comcast and NBC Universal, current stocks are dropping across the industry at an average decrease of 1.18 % (i.e., Disney’s stock dropped 5.1%). According to Price Water House Coopers (PWC), this trend will not continue and growth in projected to be positive over the next five years (approximately 5%). Below is a forward looking chart listing both current values and encouraging projected values for the Entertainment and Media industry.

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| **Entertainment & Media Industry Overview** |
|  | **Amount** | **Unit** | **Date** | **Source** |
| Total U.S. Communications & Media Spending | 1.092  | Tril. US$ | 2010 | VSS |
| Total U.S. Communications & Media Spending (projection) | 1.416  | Tril. US$ | 2014 | VSS |
| U.S. Advertising Revenues, including local outlets (preliminary) | 166.4  | Bil. US$ | 2010 | Magna |
| Global Media Suppliers Advertising Revenue (preliminary) | 389.8  | Bil. US$ | 2010 | Magna |
| Global Media Suppliers Advertising Revenue (forecast) | 412.0  | Bil. US$ | 2011 | Magna |
| **RADIO** |
| Full Service FM Radio Stations, Including Educational, U.S. | 9,844 |   | Dec-10 | FCC |
| Licensed AM Radio Stations, U.S. (Daytime/Unlimited) | 4,812 |   | Dec-10 | FCC |
| **PRINT MEDIA** |
| U.S. Magazine Advertising Revenues, PIB Measured Magazines | 19.5 | Bil. US$ | 2009 | PIB |
| Total Daily & Sunday Newspapers, U.S. | 2,298 |   | 2009 | E&P |
| Total Daily & Sunday Newspaper Circulation, U.S. | 46.2 | Mil. | 2009 | E&P |
| Total Daily & Sunday Newspaper Circulation, U.S. (historical) | 59.4 | Mil. | 2000 | E&P |
| Annual Newspaper Advertising Expenditures, U.S. (Print & Online) | 27.6 | Bil. US$ | 2009 | NAA |
| Value of Books Sold by U.S. Publishers | 23.9 | Bil. US$ | 2009 | AAP |
| E-books as a percent of Trade Book Sales, U.S. | 8.70 | % | Oct-10 | AAP |
| **Entertainment & Media Industry Overview (continued)** |
|  | **Amount** | **Unit** | **Date** | **Source** |
| **TELEVISION** |
| Licensed TV Stations U.S. (Including Digital & Class A) | 1,907 |   | Dec-10 | FCC |
| Basic Cable TV Subscribers, U.S. | 60.4 | Mil.  | Sep-10 | SNL |
| Digital Cable Subscribers, U.S. | 44.4 | Mil.  | Sep-10 | SNL |
| High Speed Internet Subscribers, U.S.  | 43.8 | Mil.  | Sep-10 | SNL |
| Number of Global 3G Mobile TV Subscribers (Projection) | 42 | Mil.  | 2012 | In-Stat |
| **MUSIC** |
| Album Sales, U.S. | 373.9 | Mil. Units | 2009 | Nielsen |
| Digital Music as a Percent of U.S. Music Sales | 40 | % | 2009 | Nielsen |
| Global Digital Music Sales | 4.2 | Bil. US$ | 2009 | IFPI  |
| Digital Music as a Percent of Global Music Sales | 27 | % | 2009 | IFPI  |
| Satellite Radio Subscribers, U.S. | 19.9 | Mil. | Sep-10 | Sirius XM |
| Number of iPods Sold during the Fiscal Year ending Sep. 25 | 50.35 | Mil. | 2010 | Apple |
| Number of iPhones Sold during the Fiscal Year ending Sep. 25 | 39.95 | Mil. | 2010 | Apple |
| **FILM** |
| U.S. Box Office Revenues | 9.87 | Bil. US$ | 2009 | Adams |
| Number of Movie Tickets Sold, U.S. & Canada | 1.414 | Bil. | 2009 | NATO |
| Number of Cinema Locations, U.S. | 5,561 |   | 2009 | NATO |
| Number of Movie Screens, U.S. | 38,605 |   | 2009 | NATO |
| **ELECTRONIC GAMES** |
| Video Game Software Sales in the U.S., U.K. and Japan | 379.3 | Mil. Units | 2009 | NPD |
| Video Game Industry Revenues, U.S. (Hardware & Software) | 19.66 | Bil. US$ | 2009 | NPD |

Source: http://www.plunkettresearch.com/entertainment%20media%20publishing%20market%20research/industry%20statistics

The economic downturn continues to take an increasing toll on the entertainment industry resulting in a declining Gross Domestic Product (GDP) that has thus reduced the amount of discretionary consumer spending, and company advertising compounding the variables in this dynamic industry. This major state of transformation is the light at the end of the tunnel and is seen as the result of economic distressed consumers looking for low-cost entertainment and companies looking for new, innovative ways to fulfill those consumer needs. The desire for increased value has caused the consumer to turn to digital media and the industry to focus on the digital media value chain. As mentioned by PWC, “The Entertainment Industry that entered this recession will not be the same industry to come out of it” (PWC, 2010).

This report includes discussion of the Dominant Economic Characteristics; Six Forces of Competition; Competitive Position of Major Companies and Competitor Analysis; Key Success Factors; Industry Prospects and Overall Attractiveness; and final conclusions and discussion of the overall entertainment industry.

Dominant Economic Characteristics

**Market Size**

 The entertainment industry is broad and constantly evolving as technological advances and market demands shift. The industry includes both producers and distributors of entertainment formats and has been expanding into new areas outside of the traditional segments of radio, print media, television, music, and film. Market demands are shown to be shifting away from some traditional segments into new frontiers of media networks and online entertainment capabilities including online streaming of television and films to online gaming platforms.

 In 2010, the industry market capitalization was approximately $210 million, per Yahoo Finance. The top eight leaders in market capitalization are: Walt Disney Company ($78.8 B), News Corporation ($46 B), News Corp. B Voting ($43.3 B), Time Warner Inc. ($38.3 B), UTV Software ($27.1 B), Entertainment ($23.9 B), Vivendi.MI ($23.7 B), Vivendi.PA ($23.4 B), with the closest follower being Pinewood Shepperton ($9.3 B).

In 2010 the entertainment industry started to see market improvements including, “significant growth in emerging markets and stronger results at movie box offices in the U.S. (since 2009). Meanwhile, consumer spending in many categories...improv(ed) in late 2010. In America, consumers are excited about many new entertainment technologies, including Microsoft’s Kinect game player add-on, the entertainment aspects of tablet computers such as the iPad, subscriptions to movie downloads, and ebooks in general, including the rapidly growing use of platforms such as Amazon’s Kindle ebook reader. Internet-based entertainment (and advertising) continues to soar on a global basis” (Plunkett Research).

**Scope of Competitive Rivalry**

 The industry leaders in the entertainment sector are broadly diversified into many segments of the industry and face less overall threat to their market position from new entrants. These leaders are considered media conglomerates, operating in a diverse range of markets spanning movies, music, internet, and television. This can diffuse dependency and limit the short term economic pressure in any particular area. However, emerging technologies are changing the competitive environment and causing the competition to intensify. Apple Inc. and Microsoft are now competitors in the mobile entertainment sector and online gaming markets. Leaders in the industry such as Disney, are holding on to their market dominance by excelling as ‘analyzers’ in their strategic characteristics by staying diversified in more stable sectors of the entertainment industry and focusing on innovation into the emerging media sectors.

 Competition between print media and online resources is increasing. Per Plunkett Research, newspapers are finding it increasingly difficult to compete against internet news and advertising rivals and book sales are facing a decline due to the emergence of ebooks in 2010.

 Main factors of competitive rivalry:

* Alternative delivery methods (in all sectors): Consumer demands are changing rapidly towards the ease of access of mobile and online entertainment platforms.
* New technology improvements: For example, the electronic book readers such as Amazon’s Kindle and Apple Inc’s iPad as well as 3D technology.
* Cost of entertainment venues: The cost of concerts and movie tickets are a key concern to consumers in the current economic condition where many are facing reductions in incomes and discretionary spending. Lower prices compete as a larger factor than quality or star appeal in this climate.

**Market Growth Rate**

 The U.S. entertainment market has posted fluctuating rates of growth over recent years. The market fell into decline in 2009; however marginal recovery was seen in 2010, followed by an estimated flat and marginal growth towards 2014. However, growth is expected to increase more rapidly in the emerging sectors and decline in the traditional sectors of the industry such as declines in print media and traditional television viewing.

 The market growth data compiled in 2010 by Datamonitor in their industry profile estimates, “in 2014, the United States movies & entertainment market is forecast to have a value of $48.2 billion, an increase of 0.3% since 2009. The compound annual growth rate of the market in the period 2009–14 is predicted to be 0.1%” as show in the bar graph below.”

 The figure below (United States movies & entertainment market value forecast), illustrates the projected growth in the movie and entertainment market over five years from 2009 through 2014 and shows steady, yet moderate growth.

**Number of Companies in the Industry**

There are over 200 companies in the entertainment industry and the top seven companies control the majority of the market. The top seven companies ranked by revenues by Fortune 500 are:

1. Walt Disney
2. News Corp.
3. Time Warner
4. CBS
5. Viacom
6. CC Media Holdings
7. Live Nation Entertainment

Walt Disney is the number one ranked company in the industry with revenue growth of 10% in 2010. Recent mergers with Pixar and Marvel further excelled Disney’s market position and scope. Mergers and acquisitions such as this have led to the dominance of conglomerate based companies this industry.

Below is a summary of the financial highlights of the top three companies in the industry:

|  |  |  |  |
| --- | --- | --- | --- |
| **Financial Highlights** | **Walt Disney** | **News Corp.** | **Time Warner** |
| Revenue (2010), (in billions $) | 39.04B | 32.55B | 27.25B |
| Quarterly Revenue Growth | 10.00% | -6.00% | 5.70% |
| Employees (2010) | 149,000 | 51,000 | 31,000 |
| Earnings Per Share ($) | 2.27 | 1.12 | 2.22 |

**Customers**

 Despite the downturn in the economy in the last few years, many consumers continued to show interest in the evolving entertainment industry. There are millions of customers for each section of the entertainment industry from movie, home video, television, media networks, gaming, etc.

 In digital media segment the number of broadband internet connections in the US has reached roughly 100 million homes and business, in addition to another 75 million mobile internet subscribers by the end of 2010 (Plunkett Research). More internet-enabled television sets are being produced which is creating a shift in customers from the traditional cable network viewing to the online streaming networks. This ease of access to programming previously limited to traditional viewing and the lowered cost of this emerging access chain is creating challenges to the business plans of many entertainment companies. The times have changed where customers have more control over their programming and entertainment options and are no longer ‘captive’ audiences who plan their schedules around their favorite shows.

 In the last few years, the customers demand for control over their media - how and what they watch, read and listen - has dramatically increased. The greatest growth in this demand is noted in the younger demographic. Media and mobile access to movies, gaming, books and television programming is increasingly sought after. Growth in consumer control is projected to continue increase in the industry into the future.

 Customers in the global economy are also increasing rapidly due to the emergence of middle classes in developing nations and the spread of internet access and cell phone use worldwide. Companies such as Disney and Time Warner are reacting proactively to this change in customer base and have incorporated strategic plans for expansion into the emerging global marketplace.

**Degree of Vertical Integration**

 A company is vertically integrated when it owns and controls every area of its enterprise: manufacturing, wholesaling and retailing. In the film and television industries, vertical integration requires ownership of production, distribution and exhibition facilities. This strategy emerged very early in the American film industry, and the Hollywood studio system became a model for integrated media ownership. This strategy has declined since the 1990’s in the broadcasting/programming sectors due emerging delivery channels.

 The leader in the entertainment industry, Disney, has increased their vertical integration throughout the years with their acquisitions of emerging production companies in multiple entertainment sectors. It has been argued that the entertainment industry is controlled by a few key corporations that serve as functional monopolies with high degrees of vertical integration.

**Ease of entry/exit**

The ease of entry/exit is low in the entertainment industry as a whole, but with the emerging technology segments the likelihood of new entrants is moderate. Currently, successful new entrants in the video distribution sector are also large corporations such as Google Inc. and Apple Inc.

 As mentioned previously, the top market leaders are conglomerate corporations encompassing a broad range of entertainment sectors including media networks, and filmmaking which create a strong barrier to entry in those sectors. However, consumer interest in independent films, for example, continues where fixed costs of film production are lower and the threat of entry from large corporations in that sector is reduced only by the nature of the independent film environment.

**Technology/Innovation**

 Technology and innovation are key players in the industry and are the driving force of competition. Market leaders are diversifying from traditional entertainment sectors into the emerging technological advanced areas such as 3D films, online media platforms, and mobile access to programming. The driving force of more customer control is shaping the innovations in the entertainment industry.

Top new technologies and innovations for the entertainment industry:

* 3D filmmaking and programming.
* Online video and programming distribution.
* Digital and ebook innovations and distributions.
* Multipurpose cell phones with video and TV programming capabilities.

**Product Characteristics**

 The entertainment industry is composed of multiple segments, with varying services and products. In the past, the entertainment industry was centralized in movies, filmmaking and print media sectors. Today’s innovations and technological advances have broadly opened the doors to new entertainment mediums and distributions.

 Along with technology, consumers are another driving force in the development of entertainment products and services characteristics. The recent economic downturn has reduced discretionary incomes and affected consumer spending on entertainment products and services. For example, the past few years has resulted in a dramatic change in the production of DVD’s, CD’s and their distribution channels. Consumers are increasingly utilizing “on-demand” viewing of movies and online streaming of songs through avenues such as iTunes which also boast lower costs to the consumer. Through these newer distribution channels, consumers have altered the characteristics of the traditional movie experience to include “on-the-go” viewing and one time viewing purchases through online and cable networks.

 Due to the unique position of the entertainment industry including what some segments of the market consider “luxury” items, the need for strategic flexibility in entertainment companies in all the products and services they offer is paramount.

**Scale Economies**

 Economies of scale refer to the increase in efficiency of production as the number of goods being produced increases. (Investopedia) Economies of scale are necessary to produce the big-budget epic films that are the building blocks of a profitable movie franchise. Disney’s purchase of Marvel in 2009 expanded their economy of scale in the movie and animation sector of the entertainment industry. The result of years of achieving these types of mergers and acquisitions by industry leaders such as Disney and Time Warner, further support the ‘bigger is better’ economy of scale scenario in the broader more diversified entertainment industry.

 Smaller companies within this industry, such as Netflix, have effectively handled the size verses efficiency scope by altering the services they offer to online distributions with less overhead costs.

**Experience Curve Effects**

 Industry market leaders such as Disney and News Corp. have been in the business of diversified entertainment products and services for over 80 years. Their experience with consumer desires, needs and loyalties to their brand names has helped the corporations survive through the fluctuations in the economy over the years. There are far more entertainment companies now then in the 1920’s when both Disney and News Corp were founded, but these companies continue to benefit from the upward curve of experience and reputation within the industry.

In a different sector of entertainment, a newcomer to the industry, Netflix, has shown rapid growth in learning and market domination in the video distribution sector. Since Netflix is the longest running company to offer videos by mail, they are the leader in the video distribution segment. They are not listed as one of the top profitable companies within the industry to their centralized and focused position in the industry; they have played a major role in the change in market demands for at home movie viewing. Critical to their success is the company’s anticipation of the changing desires of consumers away from Blockbuster-type rental stores to the ease of mail-order and now online streaming of videos at even lower costs to consumers.

**Capacity Utilization**

Capacity utilization and constraints are linked. Many areas of the entertainment industry including filmmaking, media networks and theme parks require large amounts of capital to maintain and improve.

 In the entertainment industry the diversity of services and products as well as the avenues of delivery increase the dependency on the profit mix. With the rapid advancements in technology, the capacity for new avenues of entertainment have not been reached and the limits are yet unknown.

**Industry Profitability**

 The entertainment industry is in a rapidly evolving market with external pressures of technology, consumer demand and innovation. A few hundred companies existing in the industry contribute to the industry total revenue of roughly $295 million. The profitability of the individual companies rests on their diversification, innovation, and ability to produce affordable products and services to consumers. The profitability of the companies also relies on their individual capacity for marketing, and competitive intelligence.

 The global market with increasing middle class incomes is also increasing demand internationally for many entertainment sectors. This coupled with brand loyalty and innovation leaves the industry in a positive position looking forward. Based in Yahoo Finance’s evaluation quarterly revenue growth is expected to be 9.40% for the industry.

Six Forces of Competition

Based on the assumption that a corporation is most concerned with the intensity of competition within its industry, Michael Porter’s approach to industry analysis can be used to determine profit potential measured in terms of long-run return on invested capital (Wheelen, 158). Porter’s six forces of competition are: (1) Threat of New Entrants, (2) Bargaining Power of Suppliers, (3) Bargaining Power of Buyers, (4) Threat of Substitute Products or Services, (5) Intensity of Rivalry Among Competitors, and (6) Relative Power of Other Stakeholders.

**Threat of New Entrants**

The threat of new entrants into any industry depends on the strength of the barriers to entry, and the resulting response of existing competitors. The threat of new entrants to the entertainment industry is relatively low. This industry is seen to have established companies and conglomerates with significant presence in media networks and filmmaking, thus creating a significant barrier to entry.

The threat of new entrants is so low, in fact, that industry insiders are concerned that new, independent producers are prevented from having their voices heard and getting their new, innovative products into the market. The evolution of internet distribution channels is making this less of a concern with its accessibility and immense distribution opportunities.

The high, ongoing financial outlay needed for movie production, or television series production is also extremely high. For example, production costs for Disney’s Pirates of the Caribbean movie hit nearly $300 million. High sunk costs and capital requirements are also heavy entry barriers.

**Bargaining Power of Suppliers**

The bargaining power of suppliers varies by supplier type in the entertainment industry. The value chain of many of the companies is primarily handled in-house, but more companies are outsourcing to cut costs in order to keep, or attain, a competitive advantage. This strategy especially lowers the bargaining power of American suppliers since suppliers overseas will provide the same services for a fraction of the cost, with varying degrees of quality. The industry has also seen an increase in the number of suppliers as a result of increased outsourcing, which also results in lower bargaining power of supplies as competition at their level increases.

Popular actors as “suppliers” of their specific talent or star power, help pull moviegoers into the theatres, theme parks, and increase product sales through endorsements. In fact, in the first quarter of 2011 many leading companies in the entertainment industry reported poor results which were partially due to the weak economy and reduced spending, however the major cause of poor revenue was attributed to industry specific problems such as weak superstar appeal.
As a result of this new decrease in draw, individual companies have attempted to secure high-profile stars through multi-year or multi-movie contracts, and as a result reduce their future bargaining power.

**Bargaining Power of Buyers**

In the entertainment industry, the bargaining power of buyers (consumers) is high. This bargaining power is due in part to the economy in that if low cost alternatives are available, more families are likely to choose them. The availability of substitutes makes the bargaining power of consumers, as the ultimate purchaser of entertainment goods and services, increase. Consumers have a very wide selection of programming to choose from and ease of access through increased online programming and sources of entertainment. Increased globalization also adds to the bargaining power of the consumer.

**Threat of Substitute Products or Services**

As can be seen on the chart to the right, the most detrimental impact on a corporation happens when there is a high threat of substitute products or services that is both likely and probable. One of the major threats of substitution the entertainment industry is facing is innovation in other industries. According to the PWC M&A activity report for 2010, “technology giants such as Google Inc. and Apple Inc. plan to continue to increase their pressure on the entertainment and media industry by driving convergence”(PWC, 2010). Both Apple and Google have become pioneers and market leaders in video distribution.

The music industry is also making moves toward online media expansion and increasing services offered to customers. Essentially what these companies are doing is creating one-stop-shops for the consumer who no longer has to visit multiple sites for their entertainment and media needs. Netflix and Redbox (music and video store industry corporations) have also become alternatives to the expensive ticket prices for box office hits resulting in some revenue loss for the entertainment industry. The entertainment industry has countered this threat with the availability of 3D capable screens that moviegoers are willing to pay premium prices to enjoy.

**Intensity of Rivalry Among Competitors**

All sectors of the entertainment industry face daunting challenges from alternative delivery methods, which has increased the competition among entertainment delivery platforms. Telecommunications companies such as AT&T and Verizon are now delivering television programming to the home via ultra high-speed Internet connections battling cable and satellite TV firms for market share (Plunkett Research, 2010). Tough economic times often results in a dog-eat-dog business environment but the opposite can also seen in the entertainment industry.
A strategy being implemented across the industry is one of collaboration in order to gain a larger market share and competitive advantage against other industry leaders and collaborators. The goal of industry leaders is to be the leading pioneer in digital entertainment and create entry barriers for new entrants once growth becomes more obvious.

The accompanying chart (Chart: Mobile markets in selected countries, above) compares the five-year compound annual growth (CAGR) of mobile Internet subscribers in several countries with five-year CAGR for mobile Internet content and advertising revenues in the same markets which shows the potential revenue to be generated over the next five years. The visual representation shows that the market growth is great but the digital spending growth is much slower in comparison (Chart: Global digital and non-digital spending growth, below). Long-term benefits will far exceed the current costs of implementing new strategies that develop the mobile/digital value chain which will ultimately result in large profits. Collaboration will reduce the cost of innovations and increase market share of collaborating companies while encouraging other collaborations resulting in fewer high quality products and services. The new digital value chain has become a focus of many companies and the “anytime anywhere” mobile experience of consumers is the driver. In 2010 and already in 2011, many companies are introducing new mobile devices that make the digital environment a new and exciting media experience with future growth potential.

**Relative Power of Other Stakeholders**

Other stakeholder groups from the industry’s task environment include unions, governments, special interest groups, local communities, shareholders, and creditors. As the largest and most inclusive force in the task environment, the power other stakeholders have over the industry is a high priority. Unions can have a detrimental effect if members do not feel that they are being treated fairly or they are not receiving the compensation they feel they deserve. Governments set and regulate laws that must be followed and abided by or companies will face legal repercussions. The Federal Commerce Commission (FCC) and the Department of Justice (DOJ) monitor content, as well as anti-trust and concentration violations. The FCC has the power to fine or eliminate programs that violate content restrictions. This was determined to be the case with the Howard Stern Show resulting in fines in the amount of $2.5 million. Special interest groups such as environmentalists motivate the industry to remain socially responsible and make environmental sustainability a primary concern on the corporate agenda. Shareholders invest their money in the future profitability of individual companies, if performance is in doubt, interest in the company can be sold resulting in lower stock price. Creditors are also interested in the future profitability of the industry which will determine the likelihood of the company being approved for funds to support investments.

Competitive Position of Major Entertainment Companies

The chart below represents the overall the financial position of the three leading companies in the entertainment industry: Disney, News Corp., and Time Warner, Inc.. The vertical axis represents the total amount of Net Income earned by each entertainment company, the horizontal axis represents the market capital each company has worldwide, and the circles represent the total assets possessed by each entertainment company (figures shown in billions of dollars)

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The chart below shows a comparison of each competitor in the areas of market cap, total employees, projected quarterly revenue growth, total revenue, gross margin, earnings before

 interest/tax/depreciation, operating margins, net income, earnings per share, price earnings ratio,

stock price earnings growth, and stock price/sales per share.

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| Direct Competitor Comparison – Industry = Entertainment Diversified |
|  | [DIS](http://finance.yahoo.com/q?s=DIS)NEY | NEWS CORP | TIME WARNER | INDUSTRY |
| Market Cap: | $82.84B | $48.93B | $38.95B | $209.64M |
| Employees: | 149,000 | 51,000 | 31,000 | 1.02K |
| Quarterly Revenue Growth (yoy): | 10.00% | -6.00% | 5.70% | 9.40% |
| Revenue (ttm): | $39.04B | $32.55B | $27.25B | $295.10M |
| Gross Margin (ttm): | 18.58% | 36.49% | 43.78% | 42.66% |
| EBITDA (ttm): | $8.99B | $6.19B | $6.34B | $11.56M |
| Operating Margin (ttm): | 18.58% | 15.53% | 19.82% | 7.96% |
| Net Income (ttm): | $4.42B | $2.93B | $2.49B | N/A |
| EPS (ttm): | 2.27 | 1.12 | 2.22 | 0.03 |
| P/E (ttm): | 19.25 | 16.63 | 16.40 | 15.63 |
| PEG (5 yr expected): | 1.10 | N/A | 0.90 | 1.10 |
| P/S (ttm): | 2.10 | 1.48 | 1.42 | 0.99 |

Source: <http://finance.yahoo.com/q/co?s=DIS+Competitors> |

**Competitor Analysis**

**News Corp.**

News Corp. was founded in 1922 and is based in New York, New York. The mission of the company is to create and distribute top-quality news, sports, and entertainment around the world. Currently News Corp. is divided into many different entertainment segments including cable network programming, filmed entertainment, television, direct broadcast satellite television, and publishing. News Corp. currently operates in the U.S., Latin American, European, and Asian markets.

News Corp. is widely known for its broadcasting of FOX and for coming out with box office hits such as *RIO*, *Black Swan*, and *Avatar*. They have recently gained a lot of popularity with their hit series *Glee*. One of News Corp.’s biggest accomplishments for 2010 was tapping into the 3D video market with its release of *Avatar* (its most successful movie). According to the 2010 annual report, this was a big risk but turned out to be well worth it.

News Corp. will continue on its path in 3D film making and plans to continue to release 3D films in the upcoming years. Rupert Murdoch (CEO) also plans on embracing innovation and technology as a good way to move the company forward into the future.

News Corp.’s biggest growth driver is their cable network programming segment with a 37% increase in operating income from 2009 to 2010; showing overall growing sales, revenue and net income from 2009 to 2010. Fox broadcasting was also ranked the number one television network in the US.

Key Numbers for News Corp. :

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| --- | --- |
| Company Type: | Public -(NASDAQ (GS): [NWS](http://www.hoovers.com/company/News_Corporation/crxrji-1-1njea5.html)) Headquarters |
|  Fiscal Year-End | June |
| 2010 Sales (mil.) | $32,778.0 |
| 2010 Employees | 51,000 |
| Total Net Income | 2,539.0 |
| Revenue | 32,778.0 |

Source: <http://www.hoovers.com/company/News_Corporation/crxrji-1-1njea5.html>

Key Staff at News Corp.:

K. Rupert Murdoch, Chairman and CEO

Chase Carey, Deputy Chairman, President, and COO

David DeVoe , SEVP, CFO, and Director.

**Time Warner**

Time Warner was founded in 1985 and is headquartered in New York, New York. They are the third largest media conglomerate behind Disney and News Corp. They operate in three main segments; television, film, and publishing. Time Warner is best known for its cable network programs CNN, TBS, and TNT. They also feature pay TV channels like HBO and Cinemax. In the film sector Time Warner produces films through Warner Bros. Pictures and Newline Cinema. In the past year some of Time Warner's most successful films include *Harry Potter The Deathly Hollows* and *Inception* (winner of 4 academy awards).

Time Warner is a global leader in media and its mission is to create, package, and deliver high quality content worldwide through multiple distribution outlets. According to the 2010 annual report, Time Warner is currently following a multi-year plan to become the premier global content company and to improve returns. 2010 saw benefit of this plan when they posted a 17% growth in operating income (the highest growth in years) ; showing slight increases in sales, revenue and net income from 2009 to 2010. This multi-year plan includes sticking to four key strategic objectives

A major focus for Time Warner is the increased ease of access to their content for consumers. They have recently launched TVE (TV Everywhere) so that consumers can have access to content via mobile devices at no additional cost. Time Warner also puts the expansion into international markets at the top of their priorities list. They plan to accomplish this by continuing to expand globally through the acquisition of international television networks.

Key Numbers for Time Warner Inc.

|  |  |
| --- | --- |
| Company Type | Public -(NYSE: [TWX](http://www.hoovers.com/company/Time_Warner_Inc/rfthrxi-1-1njea5.html)) Headquarters |
| Fiscal Year-End | December |
| 2010 Sales (mil.) | $26,888.0 |
| 2010 Employees | 31,000 |
| Total Net Income | 2,578.0 |
| Total Revenue | 26,888.0 |

Source: <http://www.hoovers.com/company/Time_Warner_Inc/rfthrxi-1-1njea5.html>

Key Staff at Time Warner Inc.

Jeffrey Bewkes, Chairman and CEO

Joerg Ziegler, Managing Director, Executive Search, Entertainment & Networks, Time Warner Inc.

John Martin, EVP and CFO.

**Other Entertainment Companies**

**Viacom Inc.**

Viacom Inc is also an entertainment company that is less well known as a household name, but easily is recognizable when there is the mention of MTV, VH1, Nickleodeon, CMT, and Comedy Central. Viacom Inc. is headquartered in New York, New York and operates in two segments: media networks and filmed entertainment. They produce filmed entertainment under Paramount Pictures. As far as numbers go, Viacom Inc. seems to lag behind the competitors (Disney, News Corp., and Time Warner). In 2010 they had revenues of $13.6 billion and net income of $1.6 billion.

**CBS**

CBS is another entertainment company who is also headquartered in New York, New York. CBS is different from other entertainment companies in that they do not operate in the filmed entertainment sector. CBS focuses on television, radio, online content, and publishing sectors of the entertainment industry. CBS shows positive revenues despite the fact that they do not make any profit off the filmed entertainment sector like the leaders of the industry report. Due to this factor, CBS is not in direct competition with Disney, News. Corp, Time Warner, and Viacom Inc., even though they are considered to operate in the same industry.

Key Success Factors

In order for a company to accomplish its mission and flourish, it is essential that it excels in certain areas specific to its industry so as to stand out among its competitors. In the entertainment industry competition is fierce; conglomerates dominate the trade and they prosper in almost every business segment they enter into. From filmmaking to operating amusement parks and from television networks to publishing, entertainment companies have an opportunity to serve multitudes of markets. In order to outshine its competitors, a company in the entertainment industry must strive to succeed at any or all of the following key success factors.

**Vision**

For a company to succeed in any industry, it must have a clear vision of where it sees itself or where it would like to be in the future. Vision provides direction for a company’s mission and acts as a foundation for building a strategy for how to achieve that mission. It is also therefore important that a company employ a management team and a board of directors that can effectively dictate the vision to the rest of the company and direct the firm toward achieving its goals. If a company is too concerned with where it currently stands and neglects to look forward, its vision is so near-sighted and narrowly focused that it will fail to recognize when it is headed in a direction that is not aligned with its mission.

**Demographic Appeal**

Demographics include age, gender, race, religion, education level, income, location, and others. If a company appeals to a demographic, it means that the company offers something that customers are attracted to. The pretense of satisfaction is immediate because customers are already attracted to the idea and even the idea is enticing; genuine satisfaction is almost imminent. The wider the demographic appeal, the wider the probable satisfied customer base. Customer satisfaction is a necessity in the entertainment industry because satisfied customers keep coming back for more. Furthermore, considering the fact that conglomerates dominate the entertainment industry, if a company succeeds in entertaining customers, the odds are in their favor that those customers will also be attracted to their other products in other business segments.

**Breadth of Product Line/ Product Selection**

The more diversified a company in the entertainment industry is, the more opportunity the company has to reach and attract more customers. If a customer is satisfied with a product/ service in one business segment, the company has an opportunity to provide for that customer’s needs in its other business segments by drawing on its previous success. Therefore, companies have further incentive to provide great products/ services because the success of one is reflected upon others under the same company name.

A broad product line also allows the corporation to be more diverse and creative. Employees are not constrained by the boundaries of the business segment they work in; their innovative ideas can be transposed across the company. For example, the Disney film *Song of the South* was the inspiration for the Disneyland ride, *Splash Mountain*.

**Well Recognized and Cherished Brand Name**

As consumers become accustomed to the quality of products and services churned out by a company, they come to expect the same caliber from products and services from all the company’s business segments. A strong reputation is essential for an entertainment company’s success. For example, Disney is known for its high-quality family entertainment. Time Warner strives to provide premium content through an extensive range of availability. News Corp. is recognized for its top-quality entertainment around the world. If a company consistently gives customers exactly what they expect, its reputation will precede it.

**High Utilization of Fixed Assets**

Fixed assets are those assets owned by a company that are not easily converted into cash and are generally purchased with the intention of being held for an extended period of time, usually more than one year. Most companies in the entertainment industry have a significant amount of money wrapped up in their fixed assets including buildings, land, studios, equipment, contracts with stars, and attractions. To make sure fixed assets are being efficiently utilized to their greatest potential, companies can compare the ratio between sales and fixed assets. If the sales-to-fixed-assets ratio increases over time, this indicates the company is efficiently utilizing its investments in fixed assets. A lower sales-to-fixed-assets ratio indicates the company is utilizing its assets inefficiently or its fixed assets are becoming obsolete.

**Technological Know-How**

In this day and age, improvements in technology are advancing rapidly and companies must strive to be leaders in innovation and creativity in order to stay ahead of the competition. Companies in the entertainment industry have to invest more money into research and development to come out with innovative new processes, like 3Dimensional filmmaking. Further efforts are seen in the prevention of music and movie piracy, such as; encryption methods to prevent DVD copying; and improvements of media internet capabilities, like the shift in gaming platforms from home gaming consoles to the online and mobile gaming experience. The key to innovative success is to increase opportunities to collaborate and attain secure deals with inventors of new technology before less ambitious companies.

**Foreign Market Expansion**

From foreign television broadcasting and international home entertainment to overseas amusement parks, the American entertainment industry is extending its empire around the globe. The global frontier is rich with expansion opportunities for companies in the entertainment industry. Along with expanding business enterprises, companies must also be aware of the exchange rates, tax laws, and regulations that come with operating in foreign countries. Employing management and board members with experience in international dealings would create an opportunity for success in the global business market.

**Safety**

Amusement parks provide an extensive safety and regulatory challenge for a couple of the largest leaders in the entertainment industry, most notably Disney. NBCUniversal owns the Universal Studios theme parks, and at one point, Time Warner owned the Six Flags franchise. To stay on top of regulations surrounding consumer safety, companies in the entertainment industry need to incorporate safety measures into every aspect of attraction-design. Best practices should be adopted from related industries and new safety technologies should be developed in order for a company to comply with safety regulations and internal standards. The key to success when it comes to safety is consistent monitoring of the controls and operations of attractions. Consumer safety should be considered as utmost importance for entertainment companies involved in the amusement park business segment of the industry.

Industry Prospects and Overall Attractiveness

**Factors Making the Industry Attractive**

Media Networks

As of May 11, 2011, Standard & Poor's (S&P) reported U.S. broadcasters, ad agencies, Internet companies, and outdoor companies showed signs of a healthy recovery in the marketplace. The report also noted the revenue expansion, “varied from moderate to robust”, according to a S&P’s Ratings Services, which is a good sign as revenues consistently declined from previous years. One sector of the entertainment and media industry that is doing extremely well is the Internet.

The Internet has continued to maintain its growth according to the previous S&P report, with mobile and online services geared to cater to consumer wants and needs. In fact David Goldman of CNN Money claims that online TV is a billion dollar business. “Online TV brought in $1.6 billion last year, up 34% from 2009, according to a data analysis by IHS. The largest contributor to that growth was a 65% rise in Internet TV advertising, which reached $719 million in 2010,” (Goldman, 2011). The article notes that before this current online invasion the “Big Media” was reluctant to air their programming content online because they thought it would jeopardize their lucrative deals with cable providers. However, Dan Cryan, the head broadband media analyst at IHS explained, "Even in this conflicted market, revenue was up, thanks to the proactive attitude of a handful of players, including Hulu and the CW Television Network, which have managed to expand revenue even as consumption growth has leveled out," (Goldman, 2011).

The article also found that [Hulu earned more than $200 million](http://money.cnn.com/2010/11/10/technology/digital_hollywood/index.htm?iid=EL) in ad revenue in 2010, doubling what the organization made in 2009. “Though online TV views on Hulu rose just 10%, the company generated more revenue per stream thanks to greater advertiser interest in the Internet television market. Hulu displays 47 ads per viewer per month,” and even though that seems like a large number consumers are willing to sit through advertisements in order to watch their favorite television programs during times that are the most convenient for them.

Hulu is co-owned by The Walt Disney Company, News Corporation, and NBC Universal. The article notes that the success of Hulu is also stirring rumors that the company may soon allow public offerings. The second most lucrative online TV site is the CW. The network is partially owned by Time Warner. The IHS noted, “That website grew by 50% last year, but its revenue soared a whopping 300% to $16.5 million. That's because it sold 23 ads per show, on average.” The strongly competitive market has also allowed TV Networks to look for alternatives in case the online viewing of television later collapses. Apple is the organization to which skeptical Networks turn to as the organization currently offering customized downloading services through iTunes that allow consumers to pay a onetime fee without ever seeing any commercials on their download.

With Networks battling for viewership wars consumers have the increased opportunity to be selective and pick and choose which programming best suits them. Many consumers may feel as though the extra commercials are fine while others will gravitate to ad-free digital content. Both sides of the industry will profit as will consumers who want to watch “their regularly scheduled programming,” whenever they like.

Studio Entertainment

While big budget films are the most widely viewed, the niche film audience is still strong and many studios in the industry are catering to that specific target market. Sony Pictures Classics co-president Tom Bernard found, “Everyone wants to say indie distribution is totally screwed, but it has never been healthier. More theaters are playing independent films made specifically for a specialty audience than ever before," (Filling Up). Bernard’s division releases about 20 films per year and theatre giants such as the Regal Entertainment Group and Cinemark dedicate screens just for independent and niche films. The popularity of these movies not only attracts more consumers but also contributes to profits for independent film studios.

**Factors Making the Industry Unattractive**

Music and Live Concerts

Due to the current economic situation, consumers are forced to forgo additional entertainment programs. Live concerts are shaping up to be one of the activities consumers can do without. The Wall Street Journal (WSJ) found that revenues for musical concert tours fell substantially during 2010 and global sales for the top 50 highest-grossing tours declined by 12% from 2009. In order to try and attract consumers some acts lowered their ticket prices to increase attendance. While consumers are saving money by not going to see their favorite new artist or band the established acts like Jon Bon Jovi and Paul McCartney are among the most popular performers around. The WSJ notes the industry relies heavily on older, more established acts.

Casino Resorts

CNN Money in conjunction with Fortune 500 released a list titled, “20 biggest money losers,” and the MGM Resorts International was ranked seventh. In 2010 the organization lost $1.4 billion. “This casino operator's big business is Las Vegas, which has seen an unprecedented drop in spending - especially around gambling - in the last few years. Consumers aren't the only ones who have tightened their purse strings; businesses have cut travel budgets, leading to a drop in convention activity.” MGM also lost money after a joint venture with Dubai World to create City Center resort and casino didn’t increase in market value. The organization misjudged the market and the potential of fewer consumers before realizing that adding another casino in Las Vegas was not an urgent priority to implement. Caesars Entertainment, ranked sixteenth, was also hit hard by the economy. Their 2010 losses totaled $831.1 million.

Studio Entertainment

While the entertainment industry allows for many creative and innovating processes studio entertainment appears to suffer from oversaturation. The success of *Avatar* and *Alice in Wonderland*, revamped the 3D movie industry. Soon after that initial breakthrough dozens of films were released in 3D and many had the rendering of 3D effects added after production which caused the special effects to appear in a much lower quality compared to the more expensive and timely high definition 3D production process. As ticket prices started to increase movie goers have begun to realize that going to see a movie on the weekend is no longer a cheap activity to do with the whole family and consumer demand has decreased slightly.

Another problem in the studio entertainment sector is the low sales of DVDs and Blu-ray discs. The magazine USA Today blamed the low sales on the “lackluster lineup of theatrical releases. DVD and Blu-ray disc movie sales totaled nearly $2.1 billion in the first three months of 2011, nearly 20% below the year-ago quarter,” says Digital Entertainment Group, the industry trade organization that includes the Hollywood studios. Even though Blu-ray releases increased by 10% the money lost could not recoup from the decline in sales of DVDs. The article determined the overall sales drop for movie discs was due to the poor box-office performance of the new movie releases “hitting retail in the first quarter - 25% below movies released in first quarter 2010 according to executive director Amy Jo Smith.” Also now due to the integration of technology in our everyday lives instead or buying a DVD or Blu-ray, or renting a movie from Blockbuster, consumers can stream newly released movies onto their televisions or computers just by signing up for Netflix.

**Profit Outlook**

Based on financial reports complied by Fortune 500 the entertainment industry appears to be holding on to marginal profits in 2010. The chart below ranks the top seven entertainment industry giants by earned revenues and profits. Walt Disney is performing the best both in revenues and profits but compared to Live Nation which primarily focuses on music, Disney has many differing segments of their organization (i.e., media, studio, parks and resorts) to draw revenues from. At the time of this report, News Corp., CC Media Holdings or Live Nation had not released their profit results. The results released by Viacom show shareholders and potential investors the organizations profits are decreasing from last year.

|  |  |  |
| --- | --- | --- |
| Fortune 500: 2011: Industry: Entertainment  | Revenues | Profits |
| Rank | Company | Fortune 500 rank | $ millions | % change from 2009 | $ millions | % change from 2009 |
| 1 | [Walt Disney](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/2190.html) | 65 | 38,063.0 | 5.3 | 3,963.0 | 19.8 |
| 2 | [News Corp.](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/6213.html) | 83 | 32,778.0 | 7.7 | 2,539.0 | N.A. |
| 3 | [Time Warner](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/10472.html) | 95 | 26,888.0 | -6.8 | 2,578.0 | 4.5 |
| 4 | [CBS](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/2901.html) | 174 | 14,059.8 | 8.0 | 724.2 | 219.7 |
| 5 | [Viacom](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/11294.html) | 180 | 13,497.0 | -0.9 | 1,548.0 | -3.9 |
| 6 | [CC Media Holdings](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/10738.html) | 391 | 5,865.7 | 5.7 | -479.1 | N.A. |
| 7 | [Live Nation Entertainment](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/11327.html) | 444 | 5,063.7 | 19.7 | -228.4 | N.A. |

The second chart below from Fortune 500 shows the top seven entertainment leaders ranked by earnings per share, total return to investors and number of employees instead of profits and revenue.

|  |  |  |  |
| --- | --- | --- | --- |
| 2011: Industry: Entertainment | Earnings Per Share | Total Return to Investors | Employees |
| Rank | Company | 2000-2010 Annual growth (%) | 2000-2010 Annual rate (%) | 2010 (%) | Number | % change from 2009 |
| 1 | [Walt Disney](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/2190.html) | 13.5 | 3.8 | 17.6 | 149,000 | 3.5 |
| 2 | [News Corp.](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/6213.html) | N.A. | N.A. | 7.4 | 51,000 | -7.3 |
| 3 | [Time Warner](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/10472.html) | 4.6 | -9.6 | 13.4 | 32,000 | 3.2 |
| 4 | [CBS](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/2901.html) | N.A. | -7.9 | 37.5 | 25,380 | -0.8 |
| 5 | [Viacom](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/11294.html) | N.A. | N.A. | 34.9 | 10,900 | -2.7 |
| 6 | [CC Media Holdings](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/10738.html) | N.A. | -14.5 | 190.3 | 20,283 | 5.1 |
| 7 | [Live Nation Entertainment](http://money.cnn.com/magazines/fortune/fortune500/2011/snapshots/11327.html) | N.A. | N.A. | 34.2 | 6,500 | 51.2 |

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The current economic crisis has affected companies around the world and in many industries. In light of this, declines in employee numbers across these organizations are understandable. Even though the increase in employees since 2009 was low for Walt Disney Company and Time Warner both organizations show growth in the industry and in turn, increased employee numbers. The initial review of Live Nation Entertainment’s high percentage change in the number of employees was alarming, however, one possible reasoning of the increase of employees could be the result of rehires if the organization laid off too many employees the previous year in response to organizational budget cuts.

Conclusions

 In recent years, the entertainment industry has faced vast changes in technology and consumer market demands with the increase in multi-format cellphones, internet and broadband capabilities for programming, marketing, and movie viewing. Industry leaders must adapt and stay flexible in these changing economic times. It is the consumer who is demanding more control of their entertainment choices now and companies need to continue to respond quickly or face the threat of substitution from competition. Analysts predict that the entertainment industry will see improvements in profits and growth faster than some other industries despite the tighter purse strings of many consumers.

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