Warner Bros. Entertainment

Abstract: This report includes the summary of the current situation faced by Warner Bros. as well as an analysis of the company. Warner Bros. needs to reanalyze their current movie making strategy in order to stay competitive in the industry. We recommend that Warner Bros. change its movie portfolio and selection process.

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Overview

In June of 2004, after the president of Warner Bros. Entertainment, Alan Horn, had "heard that yet another studio was going to adopt a similar strategy of producing and distributing several big-budget "event" movies each year," the company began to second guess its direction on movie production. Considering 87% of the hits come from seven major studios, Horn wants to pursue a strategy that can be repeated to create hits and compete in the industry.

With box office revenues growing both domestically and internationally, the movie genre and target audience play a part in the decision making process. According to past data, half of theatre admission is within the age group of 12-29, with an equal number of males and females attending. In addition, production and marketing costs by the seven big studios stand above a $100 million per movie average and continue to grow each year. While these factors influence part of the decision making process on which films are made, the company also considers that box office revenues vary from year to year, as well as public preferences.

Warner Bros. currently releases about 20-25 movies per year including 3-5 big-budget "event" movies. With several steps prior to filming and producing the movie, the ultimate decision is made by Horn to "greenlight" a movie, a process that includes the final "story line, genre, budget, stars, timing, and potential audience." Greenlighting the movie is crucial to the outcome of the film's success because it finalizes all these components and creates estimates that the company will have to use for the project. Our group has conducted the following analysis and developed recommendations regarding Warner Brothers' production decisions.

SWOT Analysis: Strengths

Warner Bros. is one of the largest movie producers in the world and is recognized internationally. With this high brand reputation as an entertainment leader, Warner Bros. has a strong competitive advantage. As a huge company, Warner Bros. possesses large funds and enough resources to produce high quality movies and effectively market them without partnering with other parties. These funds also allow this company to hire the most popular actors, writers, and directors. With its strengths, Warner Bros. has produced many box office hits and earned significant revenues both domestically and internationally from ticket sales, DVD sales, rentals, and television.

SWOT Analysis: Weaknesses

Even as an entertainment leader, Warner Bros. also has its weaknesses. One weakness, which affects all movie studios, is that there is no concrete process for selecting which films are made. Due to this issue, the company develops ten ideas at once but eventually only one of them is made into a film. This costs the company both time and money. Moreover, film productions are well known for running past deadlines; a reported 35% of the movies are behind schedule and take more time than expected. In fact, they say "5% of delayed films account for 80% of total cost overruns." This exceeds the Pareto Principle and shows how volatile the industry is. Unfortunately, tracking costs in the movie industry is very difficult. Above-the-line and below-the-line costs often cause confusion, and it is not standard practice for companies to release production budgets.

SWOT Analysis: Opportunities

The entertainment industry is very competitive and Warner Bros. can improve its position by taking certain actions such as improving its international appeal. The film industry is growing rapidly abroad and we cannot afford to ignore this. In order to be more attractive internationally, Warner Bros. must hire more stars that have international recognition, as well as be careful of the genres of its films. In order to stay competitive, Warner Bros. should continue to invest in better, including 3-D technology, IMAX, and blu-ray disc releases. Finally, since Warner Brothers is a powerhouse, it has the opportunity to engage in partnerships on its own terms. This company must exploit their position to seek more marketing, video game deals, toys, and other peripheral markets.

SWOT Analysis: Threats

Even though Warner Bros. is a huge leader, there are still threats in this industry. Not only there are six other major studios, new mini-major studios are also emerging, such as New Line Cinemas. The changes in trends and customers' preferences are also a huge challenge in this industry since customers' likes and preferences are constantly changing. In addition, piracy is a serious problem, as it hurts a film company's ticket sales, DVD sales, and blu-ray sales.

Recommendations

Given the current situation and Warner Bros.'s record of movie releases, three questions should be considered when developing a strategy for the future. The first question asks whether or not Warner Bros. should produce less expensive films and put greater focus on lower budget productions. Or should we continue the existing strategy of producing big-budget films that could turn into massive blockbusters?

To answer this question, we must examine the profitability of both big-budget and small-budget films. Currently, Warner Bros. produces 20 to 25 movies per year, three to five of which are big-budget event films. As shown in Exhibit 7 from the case, a typical small-budget film costs approximately $97 million to create, including marketing costs. However, revenue reaches approximately $61 million, leading to a net loss of $36 million, not including DVD sales. Conversely, large event movies cost roughly $195 million, but create a net profit of $47 million, not including DVD sales. Also, the chance that a big-budget film becomes a major hit is much greater than if the film were smaller. In fact, when a big-budget film becomes a hit, it often generates enough revenue to cover the costs of several other box office flops. Looking at 2003 as an example, only small-budget films had negative net profit and several large films generated double or triple their production costs in box-office revenue.

Because of how big-budget and small-budget films tend to perform, we would advise against giving greater focus to smaller budget films. In fact, rather than investing more time and effort in small-budget projects, we would recommend Warner Bros. drop several small-budget films per year to pay for an additional big-budget blockbuster. Although having more large projects represents a greater risk to Warner Bros., the opportunity for profit increases more than proportionately to the increase in risk. Also, in our analysis, we found that a small budget film tends to run $40 million in advertising and marketing. A large-budget film costs $60 million for marketing. By cutting a few small-budget films, we can reinvest their production costs and their larger marketing costs in other projects.

With this course, a second question is raised. As stated previously, working on more big-budget films leads to higher risk for Warner Bros. Should we share more of this risk with financial partners or other studios? Under this new strategy of producing more big-budget films and fewer small-budget films, Warner Bros is reliant on the revenue generated by its yearly event films. Because we need the profit from these hits to cover any other of our projects that may turn into flops, partnerships could hurt our ability to recoup any losses.

One possible alternative is to only use partnerships to finance productions that are less likely to succeed. This strategy, however, is most likely a short term solution. Investors and other studios would be very hesitant and suspicious of possible partnerships with Warner Brothers once they catch on to this strategy. Also, partnering with other groups in the production of a film represents an increase in the number of voices influencing how a film is developed. In a production with only one studio, many forces are already at work, fighting over every detail of a film. Having too many investors will lead to communication conflicts and power clashes as everyone tries to satisfy their own demands.

The last major issue that Warner Bros. faces is deciding which movies will attract the largest audiences from around the world. The selection process should examine genres, ratings, age groups, demographics, and international reach. Blockbusters should include multiple genres in order to appeal to large audiences who can experience multiple emotions in a single film. Successful movies tend to encompass action, drama, comedy, and romance together. The majority of films selected should also be rated PG-13 to target the largest age group of moviegoers. As an extra measure to increase competitiveness, Warner Bros. should try to choose movies that would appeal to all age groups, maximizing the audience pool. Many films such as Harry Potter and Lord of the Rings have done this very successfully. Moreover, Warner Bros. should avoid making too many slapstick comedies because international audiences have little interest in them, decreasing the amount of revenue Warner Bros. could potentially make. It is also ideal to cast international stars, such as Tom Cruise and Russell Crowe, in big budget films to draw in both American and international audiences. Since international revenues account for over 50% of worldwide gross profit and is growing, it would be incredibly advantageous to attract even more international audiences.

Conclusion and Implementation

Ultimately, Warner Bros. should make 15 to 20 movies in total, including 4 to 6 big-budget films. The smaller budget movie count should be reduced by 5 and the big budget count should increase by 1. The release dates of these movies should be spread throughout the year. Most big budget films come out around the summer when students are out of school and during the winter holidays when families gather. We suggest that a big budget film be released sometime not during these two periods because there are fewer movies that Warner Bros. has to compete with. When selecting movies, the aforementioned criteria should be considered in order to appeal to the widest audience.

Sources:

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