Internal Analysis of Time Warner Inc. in the Entertainment and Film Industry

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Introduction

In 2012 over 68% of the population went to a movie theater and spent $37.4B at the box office\(^1\) and there were over 97 million cable subscribers in the USA.\(^{ii} \) With such a large audience available it is necessary for firms in the industry to find ways through cost leadership, product differentiation, or some combination of the two in order to maintain market share and increase profit margins.

Product Differentiation and Cost Leadership

In the film and entertainment industry, product differentiation plays a key role in maintaining and increasing market shares. With so many new companies allowing access to programming via on-demand services such as Netflix and Hulu customers are constantly pressured into choosing a service which will offer them the newest, highest quality content. One way which Time Warner has differentiated its products is by creating a service which targets customers seeking older, rarer content which might otherwise have been overlooked. While the service, Warner Archive Instant, may be slightly more expensive (approx. $2 more than Hulu and Netflix), Time Warner is hoping that by reaching a niche market that hasn’t quite been taped they will be able to reach a segment which may not otherwise be interested in a subscription streaming service.\(^{iii} \)

Other ways in which Time Warner is able to differentiate itself is through HBO and the original programming it is able to offer. While shows like “Game of Thrones” have been able to capture the title of “most pirated show,” Time Warner has come to accept that piracy is a problem that may never have a solution and merely see it as a compliment. By creating premium subscription services and using those services to broadcast the highest quality TV,
Time Warner is able to differentiate its products by creating a culture around them. Piracy of the show does not affect the 60 million worldwide subscribers and only increases the cultural buzz surround the show thereby drawing larger audiences. HBO is considered to hold about 20% of Time Warner’s value and contribute over 12% to its revenue (Appendix A) and, as stated above they are able to capture this by offering exclusive, quality programming which customers are willing to pay premium rates for.

Time Warner, in some ways, attempts to use cost leadership as a method to supplement its main strategy of product differentiation. Because the TV and film entertainment industry is driven by spending money to create higher quality programming Time Warner has made cutting the costs of running the business itself, as opposed to production costs, a key priority and by cutting these costs, they hope to gain a competitive advantage by cutting these costs in order to focus on overall corporate-level strategies (higher quality programming, more networks, etc.). Time Warner hopes to use its size to begin using shared services throughout its different business segments such as email services and help desks. The costs cuts associated with these changes will lead the way to a policy of experimentation by allowing resources to be focused on differentiating products by creating new programming, new platforms to streamline programing to customers, and new functionalities of the technology currently used to view programming. It will also eliminate a matrix structure of management in some areas by combining departments to lower costs.

Another way which Time Warner hopes to eliminate certain costs and gain advantage is by eliminating certain groups of programming altogether. “Cord-cutting” (leaving cable companies for broadband services) is becoming much more popular. If Time Warner can eliminate costs they pay cable companies to carry their networks, they can put more money into online platforms which are both more popular and less-costly. Company officials have quickly realized that their escalation of commitment towards less popular programming is
becoming much more costly as cable companies have increased fees by over 15% in the last 4 years while the cable companies themselves have been able to cut costs by 30%. What this translates to is that although Time Warner assets like HBO drive the company’s profit through premium pricing, cable companies are still finding ways to drive up customer subscription prices driving certain customers away. This is just one of the emergent strategies of the company. Time Warner is seeing that the strategy of having very specialized programming must be changed and many programs must be eliminated in order to account for rising costs.

Premium networks which offer premium programing at premium prices, like HBO, currently cost consumers $15-$20 a month. This fee gets paid directly to the cable company which then passes along approximately 50% of that to Time Warner (Appendix B). The reason this is important is because this gets passed on to the customer and the customer is willing to pay it in order to watch the much higher quality of programming (as can be seen by the astonishingly high amount of prime-time Emmys its programming gets nominated for each year and the consistency that shows get nominated in consecutive years) (appendix C). The reason this applies and is so important in this case is because if Time Warner cuts its programming on less valued networks and is able to cut costs, it can gain advantage through focusing those resources on less costly media platforms (such as HBOGo) which are quickly becoming much more profitable and provide a the highest quality of programing all in one place.

**VRIO Analysis (Appendix D)**

All the factors discussed above play into Time Warner’s keys strategy of product differentiation. After evaluating the various ways in which Time Warner approaches this strategy, it seems as if their approach to adopting new technologies is one of their key
resources. By adopting these new technologies Time Warner is able to create an economy of scope by integrating themselves into several facets of their consumer’s lives. Through the use of creating streaming from any internet-connected device with HBOGo, applications on Samsung’s SmartTV, and a deal with AppleTV, Time Warner has created revenue streams from every type of consumer with interest in its products. This is not necessarily a rare capability as many premium and non-premium networks offer some sort of on-demand and mobile option, nor is it costly to imitate due to the fact that the programming itself is already made and the media delivery method is already there. What Time Warner does do with this which makes it unique is that they exploit these delivery methods by limiting them to consumers have subscribed on cable (meaning that you can’t get HBOGo without having regular HBO). This is a key strength as the exclusivity it creates is a key driving factor in lowering overall costs and maintaining the 80% of revenue it generates through linear services

The other key resource, as mentioned, is exclusivity. Time Warner is able to thrive off the exclusivity which it creates among its premium program options. As stated earlier, by restricting how their premium program can be viewed and keeping on-demand services such as GoMax and HBOGo to customers who subscribe through cable, they are able to focus on quality, rather than quantity by alleviating a need for more infrastructures. The exclusivity they have created is rare and not very imitable due to the high quality of programming and restriction in who may subscribe. While many see it as a weakness and are frustrated by not being able to subscribe only to the online service, it is a weakness because customers are attracted to the quality of programming and they cannot get those programs anywhere else, therefore they are forced to subscribe.
Appendix A

Time Warner

Appendix B

Fee per HBO U.S. Subscriber ($)
Appendix C

From Oz to Westeros

HBO shows, selected: seasons (episodes, to date and ordered)

Appendix D

Resource: Approach to adopting new technology

<table>
<thead>
<tr>
<th>Is this resource or capability:</th>
<th>Valuable?</th>
<th>Rare?</th>
<th>Costly to imitate?</th>
<th>Exploited by organization?</th>
<th>Competitive implications</th>
<th>Strengths or Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained Competitive Advantage</td>
<td>Strength</td>
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