

Analysis of the development of the Big Five companies in the movie industry

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Abstract. Power Warner Bros. Discovery, Inc. is an American multinational mass media and entertainment conglomerate. The company was formed through the merger of WarnerMedia and Discovery, Inc., completed on April 8, 2022. Based on my studies on the equities of directors of this company, I learnt and observed that there is a certain connections between the non-employee directors' salaries and the performance of the company since there might be a incentive mechanism in the payment system, By analysing the performance of Warner Bros Disc and several other leading companies in the industry by using Porter's Five Forces model and a table that visually shows the trend of change of the salaries of the directors, I got a conclusion that the companies listed in my study have long-term sustainability to develop in the movie industry and the assumption has been proved. Moreover, there is a positive relevance between the non-employee directors' salary structure and the strength and potential of a company that as the compensation policy tends to be less performance-based.

Keywords: Movie Industry, Payment equity, Compensation Policy, Porter's Five Forces Model.

1. Introduction

In the past studies, articles have been using various high technology enterprises in China as examples to analyze the problems that exist in the equity incentive system on the basis of the high-tech enterprises that are put forward to optimize the method of equity incentive scheme as well as high and new technology enterprise effective play to the advice of equity incentive system for high-tech enterprises to retain the core technology talent, innovation incentive mechanism [1, 2].

There is very few information about the studies in the relationship between the payment structure and the sustainability of development of companies in the foreseeable future. After my research on the reference studies, I would like to combine the methodology mentioned in an analysis of the limitations of the incentive system (by Alfie Kohn) and the method of data-analysis based on various tables of data that measure the performances of a number of enterprises in one industry [3, 4] defects of respectively [5].

2. Data and Methods

2.1 Data

Collecting data from the website of Government Assessment, I have collected several tables of the annual basic retainers, attendance fees, equity awards, stock ownership guidelines and director's compensations. I studied the differences and illustrated a developing trend of the data by using the data between 2015 and 2021, I marked and made conclusion based on the similarities of the data and demonstrated the reasons and the factors why the data remained the same over these years.

I am going to discuss and compare the differences based on various examples of enterprises that are playing leading roles in the film-making industry. Those companies are Warner Bros Disc, Paramount Studio, the Walt Disney Company and Universal Pictures. These four companies are the most world-famous film industrial American enterprises with high-amount, high-quality productions and a decent performance. Therefore, I think that these companies can represent the whole industry and I would like to show the changes and spreads of data with a description of comparing and contrasting, an illustration of the changes of equities over years and a comparison of the variety of

the incentive system and the salary structure of four different enterprises of the communicative industry (Blizzard Activision, Netflix and Electronic Arts Inc.).

2.2 Method

In this paper, I am going to discuss about the comprehensive development and the sustainability of various firms in the movie industry. For qualitative analysis, Michael Porter's Five Forces Model will be used to compare and contrast the differences between companies. I am going to vary the complex factors of the performances of companies by discussing the basic competitive situation in the movie industry. I will measure the abilities of the companies when facing the five forces from the outsiders as a static sectional scan of profitability and attractiveness of them. As references, I am going to use the compensation structure with comparing the differences and analyzing the data of the directors' compensations and equities over years. The paper will be based on the data of the salary structures, compensation philosophies and the proportions of retainers and compensations of various world leading companies such as Warner Bros Discovery, Paramount, Disney and Universal Pictures.

Since that I have been studying and researching about the salary structure of Warner Bros Discovery and the growth trend of it between 2015 and 2021, I will start my analysis with the data and information of Warner Bros Discovery from the website of EDGAR. I will illustrate the effects of using a performance-based incentive system based on the data reference. Then I will compare the data with the other companies' in the movie industry and illustrate the advantages and disadvantages of different levels of using incentive system in the paying methods. The discussion and illustration will be based on the data of the payment structures and the changes between 2015 and 2021 from the website EDGAR.

After that, I am going to compare the performances and developments of these mentioned companies based on the quality of products and the box-office numbers of some of their representative film products. The hierarchy of the development of companies will be the reference for the analysis of the sustainability of them. This study and analysis is going to be based on the conclusion of the illustration of using the Porter's Five Forces Model.

3. Results

By using Michael Porter's Five Forces Model to analyse the competitiveness of the five globally leading companies in the movie industry and the sustainability of development of them, I compared the data of box office of the most famous representative works of those companies to illustrate the influence of the companies and their products to the entire industry.

3.1 The Michael Porter's Five Forces Analysis

1. The bargaining ability of purchasers in this case is rather low due to the fact that the total amount of purchasers is huge. Although movie products should not be considered as integrated products if online play is taken into account. The feasibility of selling each film product to various offline cinemas should not be doubted. Secondly, the scales of the companies listed are relatively big which would effect the ability of bargaining of purchasers that the purchasers do not have the capital to bargain with the film companies. The scales of the purchaser firms are smaller than those companies which would be a factor that influence the bargain ability as well.

2. The bargaining power of supplier is rather strong in the industry market due to the reasons that: The supplier industry is controlled by some enterprises that have a relatively stable market position and are not troubled by fierce competition in the market. There are so many buyers of its products that every single buyer cannot become an important customer of the supplier.

3. The speciality of the companies are unlikely to copy or replace that the audiences do not have substitute products with an equal quality. For example, the film products of The Walt Disney Company is almost impossible to be copied or replaced due to the innovation of characters and the

scenarios. For instance, the original story of Frozen by The Walt Disney is new. Moreover, the cost of conversion is over 150 million USD that would be out of the budget of the majority of the second-tier companies.

4. The supplier can easily carry out the forward combination or integration while the buyer is difficult to carry out the backward combination or integration. For reference, Walt Disney bought Pixar Animation Studio in 2006 by 7.4 billion USD and bought Marvel Comics in 2009 by 4.24 billion USD. This can also be seen as an evidence to show the purchase power of the supplier, The Walt Disney Company that it is almost impossible for other competitors to replace it.

5. The relationship between those companies that I have listed could be considered as competitors. However, the products of The Walt Disney Company are produced and shoot mainly based on the original stories from Kinder-und Hausnarchen by the Grimm brothers and Hans Christian Anderson's Fairytales which have a large number of audience basis and a wide popularity among the entire western world. Also, the high-quality of the products of these companies are almost impossible to be copied or to be transcended that some movies have caused unprecedented occasion with their achievements in the box office. For example, the series of Harry Porter movies by Warner Bros Disc. broke the record of the global box office and reached 7.8 billion USD which is a huge number of box office that is rather difficult for the potential competitors to compete with it by producing a similarly great movie product. Therefore, with a consideration about the situation of current global market of the movie industry, there is hardly any potential competitors in the entire industry who can affect or be a threat to the competitiveness of the Warner Bros Disc. Since the other three enterprises are also listed as the Big Five Studios in the film-making industry as the Warner Bros Disc. does, all these companies can be considered fairly as they have very few potential competitors from the other firms.

The model shows that these four companies have rather long-termed and stable development sustainability in the market.

Table 1. a comparison of the proportions of the stock awards in Warner Bros Disc between 2015 and 2021

	2015	2021	% of equity
Stock Awards (\$)	141,028	187,411	54.33%(2021)
Fees earned in cash(\$)	127,083	157,500	52.6%(2015)
total	268,111.333	344,911	

3.2 The salary structure analysis

As another evidence to prove my statement, the salary structure of Warner Bros Disc can be taken into account as an instance. The compensation philosophy of Warner Bros Disc is relatively not very performance-based which can be told by the low-proportion of the non-employee directors' equity. The equity includes optional awards and stock awards and the average of the equity is not more than 55% of the total pay. Also, by using the data of the number of payment between 2015 and 2021 to make a comparison in order to calculate and draw to a conclusion of the trend of change over years, I found out that the proportion of equity has hardly changed in the last 7 years. The ratio of directors' equity to the total payment in 2015 is 52.6% and the ratio in 2021 is 54.33% this data indicates that the ratio has mainly remain remained the same in the last 7 years and it only takes about a half of the total amount of payment [10].

Despite that without using a high-proportion of share incentive may not be very beneficial to the development of the company and may lead to a lack of motivation to the employees and directors. As a counterbalance, Warner Bros Disc has a special compensation policy that we can see in the other three companies in my group that the directors can receive a meeting attendance fee as an award to stimulate them to put more efforts in the company's daily routine business.

The compensation structure in Warner Bros Disc can be seen as an evidence to show the power of the company that the leaders are not expecting low risk-averse directors to assist to manage the enterprise. Therefore, the board does not need to put an incentive system into the payment to stimulate

the directors to put more efforts into work in order to create a better performance for the company. This may be because of the reverse effect of using an incentive system in salary paying that those directors are not employees of the firm and they may favor positions with payments that are more stable and may not choose this company to work for. This may cause a potential loss of talent. Also, the “dark side” of the incentive system has been pointed out by David J Denis, Paul Hanouna and Atulya Sarin in their essays: “several other recent studies examine the incentive to misstate or misrepresent corporate earnings [4, 5]”.

This compensation philosophy also indicates that Warner Bros Disc has great competitiveness among the film-making companies over the world.

4. Conclusions

According to my study in the compensation philosophy and the lay-out of the box office performance of some of their products. The Walt Disney Company, Warner Bros Disc, Paramount and Universal Pictures have a long-term sustainability to develop in the movie industry. The assumption has been proved by my analysis using the Porter’s Five Forces Models that due to the insurmountable capital, the innovation and the high-quality and the non-repeatability of their film products.

There is a positive relevance between the non-employee directors’ salary structure and the strength and potential of a company that as the compensation policy tends to be less performance-based, the smaller the probability of the company can be replaced by other competitors is, the more sustainable and stable the development of the enterprise is.

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