Six Flags Entertainment Corporation

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Executive Summary

Six Flags Entertainment Corporation is the world’s largest regional theme park company and the largest operator of waterparks in North America. By operating mechanical rides, water rides, games, shows, themed exhibits, refreshment stands and other attractions throughout its parks, Six Flags falls within the amusement and theme park industry. With five key players, this particular industry is highly competitive and largely consolidated. Due to the power of first-mover advantages, The Walt Disney Company owns over half of the market, leaving other players like Six Flags searching for ways to marginally increase market presence. However, the dominant presence of The Walt Disney Company is not the sole factor when making strategic considerations. Decreasing unemployment in the United States has led to an increase in the expenditure by firms on the labor input factor. As wages are expected to continually rise, customer travel is expected to follow the same pattern. This economic trend serves to benefit players within the amusement and theme park industry because domestic and international trips increase the customer traffic within their parks. The challenge for firms within the industry is to ensure the revenue garnered from the increased customer traffic and in-park spending exceeds the augmented cost of labor.

While Six Flags has had a turbulent past wrought with bankruptcy and management turnover, the current financial prospects are positive. The first quarter’s earnings for 2019 show Six Flags reached an all-time high for guest spending, demonstrating that its efforts to increase in-park spending opportunities harvested revenue growth for the firm. However, the nature of the service Six Flags provides, a luxury offering, creates relatively unstable, dynamic performance. Financial trends show that when economic downturns occur, the firm’s profits fall concurrently. Even minor calendar events, such as Easter being in late April instead of early
April, led to a decrease in sales and depressed overall revenue for the most recent quarter. Overall, though, Six Flags boasts $1.5 billion in revenue that is generated across 26 parks within the United States, Mexico, and Canada.¹

In regard to differentiators, Six Flags’ competitive advantage is around the quantity and proximity of their locations. By dispersing the parks throughout the country in regions with disposable income, Six Flags ensures a diversified stream of sales. If a tornado obliterates one park, the firm has 25 other parks’ revenues to leverage. Another significant capability of Six Flags is the ability to design thrilling, innovative roller coasters; however, because the firm is not organized to extract the maximum value out of this capability, it is not currently a competitive advantage. By adjusting the structure corporately within Six Flags, a new core competency can be achieved.

The ultimate goal for Six Flags is to maintain and increase its market presence by continually growing. Six Flags has traditionally held the cost leader position, offering ticket prices at half of the price in contrast to Universal and Disney. However, the ever evolving nature of customer expectations creates a problem. In order for Six Flags to continue growing, the firm must retain customer loyalty. Thus, Six Flags must consider moving toward a value innovation strategy with the goal of increasing the perceived value by the customer.

The risky and capital-intensive nature of the industry calls for a measured, calculated approach. By moving into international markets, Six Flags has the opportunity to gain market share, move toward a value innovation strategy, and expand its brand globally. Particularly, the recommendation is to enter into a strategic alliance with an existing international operator via a licensing agreement. If Six Flags reorganizes its corporate efforts around researching and developing innovative park rides, the firm will realize a new core competency. The newly

developed rides can be deployed in Six Flags' existing parks to increase the existing customers' perceived value as well as licensed to the international operators at a significant price (new coaster sells for approximately $20 million) to open a new revenue stream. Six Flags would not manage the international parks but would simply provide the coasters and negotiate for royalty rates that result from the international operators' increased revenue. This strategy is a risk-averse one that allows Six Flags to flexibly test new international markets while organizing its efforts around a sustainable capability, the innovation of roller coaster technology. By implementing this strategy, Six Flags should expect to see an improvement in brand reputation, revenue, and investor support.
General Company Information

Six Flags was founded by Angus Wynne when the first park, Six Flags Over Texas, was created in 1961. The cost leadership strategy, under which Six Flags currently operate, began with Wynne’s vision to create theme parks that families could affordably and conveniently enjoy. Through a strategy of innovation in ride technology and theming that improves the customer experience, Six Flags became the leader in the regional theme park industry. The Texas park became the cornerstone of theme immersion in the industry. Based on the six regimes that ruled Texas, the park allowed guests the ability to visit times and locations that no longer exist. The customer loyalty gained through its early Texas-themed park served as a catalyst for its current thematic model, which infuses the characters and worlds within DC Comics and Warner Brothers. Six Flags utilizes a licensing agreement with these entertainment giants to provide a unique experience for its customers, including character meet-and-greets, dining experiences, autographing opportunities, and gift shops featuring related merchandise. While its thematic intentions are clear, Six Flags does not have an accessible vision and mission statement for its customers, shareholders, or employees. The company originally grew according to Wynne’s vision of innovation and regional theme immersion. Therefore, the company relied on the strong influence of Wynne, or founder imprinting, to drive employee and customer loyalty throughout the years. As a company, a lack of a vision statement can be confusing for employees and customers. It can create problems for growth when initiatives are not grounded and directed toward a single purpose; also, without a vision or mission statement, employees are unclear whether their actions clearly align with the goals of the company. While Six Flags does not have

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an overarching mission and vision statement, the company’s philanthropic community outreach program has a mission statement, which reads:

Establish Six Flags Friends as the pre-eminent community outreach program within the entertainment industry by encouraging and inspiring children and families throughout our parks and their local communities. Through volunteerism, giving programs, special events, and educational and social awareness, we weave a wide circle of friends and foster the bonds that make up communities across our nation.³

From this statement, it is clear that the corporate social responsibility arm of Six Flags carries values of volunteerism, helping children and families, and strong community involvement. These values are evident in the projects that Six Flags pursues, but do not explain how they generate profit and the overarching goals, values, and principles of the company as a whole.

With over 32 million guests, Six Flags generates revenue primarily through its ticket sales, which accounted for 55% of its revenue in 2018.⁴ In addition to ticket sales, Six Flags generated $1.5 billion in revenue via two major avenues: in-park sale of food, beverages, merchandise, and other in-park services and sponsorship and licensing agreements. Because its strongest revenue comes from ticket sales, Six Flags’ 2018 growth goal was to improve its membership program by 8%. Six Flags also raised admission prices. Because of these changes, the company had its most successful revenue to date in September, which was driven by increased attendance.

Regarding its financial history, Six Flags has experienced the ups and downs of a roller coaster. In 1996, Six Flags released shares via an initial public offering under Premier Parks (Ticker Symbol: PKS) at $29 per share. However, in 2006, due to liquidity and financing issues,

the firm was forced to exit the market with PKS shares at $7.15 per share. Shortly thereafter, the firm released new shares via an initial public offering under a new name, Six Flags Entertainment Corporation (SIX), at $9.75 per share. In 2009, Six Flags Entertainment Corporation filed for bankruptcy with $2.7 billion in debt. Six Flags had an all-time low share price in December 2018 and a declining March performance due to the announcement of the retirement of its CEO Jim Reid-Anderson, the leader responsible for the recent improved performance. Despite the share price, the company was on track to achieve its corporate goals for the ninth year in a row thanks to the work and leadership of CEO Jim Reid-Anderson. In 2018, new Six Flags ventures included solar power experimentation, loan renegotiation, international expansion, acquisitions, and natural disasters. In balancing these ventures with sustaining its current operations, Six Flags looks to increase its market share compared to competitors.

External Analysis

Analysis of the External Environment

To maintain and improve performance, a company must understand the environment in which it operates. In particular, political, economic, sociocultural, technological, ecological, and legal factors have a direct impact on the success of current operations and future strategic initiatives for all players within the amusement and theme park industry.

Generally, the United States federal government stays out of amusement and theme park behavior. The main political activity that occurs involves networking and trading through an international trade association, International Association of Amusement Parks and Attractions (IAAPA). Founded in 1918, IAAPA represents more than 4,500 facility, supplier, and individual
members from more than 90 countries. Therefore, this agency is critical in establishing relationships and driving player behavior.\textsuperscript{5}

Considering macroeconomic factors, recent economic improvements have provided confidence to consumers. In the next five years to 2023, domestic travel is expected to increase by an annualized rate of 1.6\% and international trips by a rate of 3.6\%. Overall expected consumer spending is expected to rise to an annualized rate of 2.0\% over the same period. As a result, customer traffic is expected to increase for players in the amusement and theme park industry.\textsuperscript{6} Seasonal variations in customer traffic cause a need for a large pool of part-time and multiskilled workers. The combination of a highly labor-intensive industry and gradually increasing annualized wage for each employee ($25,656 in 2018) increases costs and cuts into the industry’s revenue (19.5\% of industry revenue represents employee wages).\textsuperscript{7} The increase in wage rates is explained macroeconomically by the decreasing unemployment rate in the United States (currently at 3.7\%).\textsuperscript{8} Also, the requirement of significant land for the park rides leads to high rent and utility costs, accounting for 25.4\% of industry revenue in 2018. Lastly, capital investments in this industry, which include rides and attractions, depreciate quickly, so firms in this industry must have a strategic plan to continually update or replace rides in order to maintain and foster visitor excitement (depreciation represents 7.5\% and purchases 9.5\% of


industry revenue). The current general macroeconomic trend of gradually rising interest rates encourages firms to update and build sooner rather than later.

With the amusement and theme park industry providing a luxury good to consumers, considering sociocultural factors is critical to stimulate demand and ensure a steady stream of revenue. Consumers make decisions on whether to visit amusement and theme parks based on the development of new rides and upgrade of existing rides. For example, after opening up the first Harry Potter World at Universal Parks and Resorts, Universal Orlando Resort’s attendance increased by 50% for the first three years.³

Technological factors affect the firm’s ability to meet the sociocultural desires. Consumers are demanding faster and more engaging amusement rides. Thus, keeping an eye on technology shifts and innovation is critical for participating firms within the industry. Investments in virtual reality and other augmented experience technologies drive innovation and the need for investment in this sphere.

While a less pressing concern to most amusement and theme park providers, the ecological changes occurring within the external environment affect the firm’s costs and ability to operate. Given the size of the amusement parks and the structures within the space, electricity is a significant cost and ecological factor. In efforts to decrease energy usage and increase water-use efficiency, amusement and theme parks have adopted water filtration and pumping systems. Attempts to lower costs and appeal to the environmentally-friendly customer has led to the installment of low-flow restroom units and high-efficiency ice machines and

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freezers. Therefore, there is a pressure to improve the ecological footprint both to decrease costs and to demonstrate corporate social responsibility to the green-thumb customer.

Arguably, the most pertinent external factor to focus on is the legal dimension. The level of regulation is moderate and increasing, so regular maintenance and ride inspections are critical to avoid significant litigation costs. While fixed-site rides are not regulated federally, most states have regulations of varying degree. Due to rulings like Virginia Graeme Baker Pool and Spa Safety Act, water rides consequently fall under federal regulation. Regardless of whether policy was determined before or after the establishment of the amusement rides, firms are expected to retrofit and/or establish rides that abide by the regulations. From a public relations perspective, a strong reputational risk exists if any foul play is noticed or if any injuries occur on the amusement park’s premises. Therefore, focus on maintenance and safety is pivotal. There is also a growing desire from customers for a larger, merchandise-driven, immersive experience at the parks, requiring partnerships with major film franchises. Thus, contracts must be formed and maintained regarding the sharing of intellectual property.

Each of the five external factors mentioned were considered when understanding industry behavior and formulating a specific recommendation for Six Flags Entertainment Corporation.

Analysis of the Amusement and Theme Park Industry

While the external environment is important to consider, analysis would be incomplete without diving a bit deeper by understanding the industry in which Six Flags Entertainment Corporation resides and the trends within the industry. Six Flags Entertainment Corporation falls within the amusement and theme park industry. Operators in this industry operate mechanical

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rides, water rides, games, shows, themed exhibits, refreshment stands and other attractions. Within the industry, there is a difference between theme park and amusement parks. Theme parks tell a story with their various rides, focusing on the architecture, landscape, etc. Theme parks often create “lands”, where characters roam about and make the visitors feel as if they are in a whimsical world. On the contrary, amusement parks skip the storytelling pretense and allow the loud noises from their thrilling, thematically-unrelated rides to create an electric environment. Whereas Disney and Universal Studios fall in the theme park category, Cedar Point falls in the amusement park category. While Six Flags does leverage DC Comics characters and tells stories within its rides, its comparatively simply design and inconsistent theme throughout the park categorizes them in the middle of the spectrum.11

With an understanding of what the industry includes, the next step is to understand the nature of the competition between these amusement and theme park providers. The amusement and theme park industry is largely consolidated, representing an oligopoly structure with a few large players. The top five players own 90.3% of the total revenue in 2018, which makes the industry highly concentrated and the competition intense. The few major players include The Walt Disney Company (50.4% market share), NBCUniversal Media LLC (19.0% market share), SeaWorld Entertainment Inc. (7.4% market share), Six Flags Entertainment Corporation (7.5% market share), and Cedar Fair LP (6.0% market share). That leaves regional companies (like Hersheypark Entertainment and Resorts Company) with the remaining 10% of the market for the amusement and theme park industry. The remaining 10% represents over 500 enterprises, which often operate seasonally and contain only one venue.12

highly specialized and capital intensive, so the high barriers to entry make the major players the largest threats competitively. The major players wrestle for market positioning by acquiring venues from smaller operators and adding venues independently. Therefore, in the future, the expected number of acquisitions in the amusement and theme park industry is expected to rise.

The fact that the industry is an oligopoly structure with a few key players indicates that the industry is in a later stage of its life cycle. In particular, the consolidation activity places it in the growth stage of the life cycle. Since the amusement and theme park industry is in the growth period of the life cycle (see graphic below), the industry is expected to continue to grow but at a more subdued rate (see table below). Over the next five years to 2023, rising industry revenue is expected to increase the number of participants to 586 companies, which represents an annualized growth rate of 1.6%. The same growth rate is expected for employment, which would lead to 152,181 workers.

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Due to the subdued growth in revenue, profit margins are expected to fall slightly. In 2023, industry profit is expected to absorb 20% of total industry revenue. In order for the profit margin to remain around 20%, it is critical that firms avoid overexpansion and think strategically before committing to excessive capital investments.

**Profitability of the Amusement and Theme Park Industry**

To fully understand the profit potential of the industry, five forces that are believed to describe the threats and opportunities within the industry were considered. The first force relates to the threat of new entrants disrupting the incumbent firms. This force was deemed low because high initial investments are required before a firm can begin to operate and collect revenue. Examples of this include purchasing land, costs and efforts related to engineering and designing the park, purchasing materials for rides, complexities with complying with safety policy regulations, etc. Given the industry’s oligopoly structure, the most significant opportunities for entry are for firms with a regional or niche focus.

The second force includes the power of suppliers, which was deemed moderate because the power depends on the supplier type. While the food, beverage, and food service
contract suppliers do not rely heavily on the industry for revenue, these suppliers offer commodity-type products and have no credible ability to forward integrate into the amusement and theme park industry. Therefore, their power is relatively low. On the other hand, the musical groups, artists, and film agencies offer their talents and intellectual property, which creates a more specialized service. There are far less substitutes for their offerings; therefore, their power is relatively high.

The third force is the power of buyers, which was deemed moderately low, because, while high operational costs make the firms reliant on high visitor traffic to offset those fixed costs, the geographically dispersed nature of the firms’ parks make customers unable to switch easily. Therefore, after deciding to consume from the industry, the buyers have limited power. It is important to consider, however, that the industry offers services that are considered luxury goods, causing price-sensitive shoppers to forgo the expense when they are struggling financially. Industry leaders must consider and often adjust prices and tickets based on the economic and financial climate of their consumers.

The fourth force relates to the threat of substitutes, which was deemed high because there is a wide range of activities that consumers can do for leisure besides attending an amusement or theme park. Examples include live sporting events, music festivals, theatrical performances, outdoor festivals, and any outdoor free event.

The last force that was considered involves the rivalry among existing firms. This force was deemed moderately high because, given the highly concentrated state of the industry, the large players are looking toward international expansion as a means to gain market share. While, historically, globalization has been low, the middle class Asian population represents a largely untapped market, creating an opportunity for the major players to find open waters to
strengthen their respective competitive stances. Therefore, industry growth is currently found in globalization efforts.

Internal Analysis

Relevant Resources, Capabilities, and Competitive Advantages

When looking at Six Flags in particular, it is valuable to use the VRIO framework to analyze the company’s potential sustainable competitive advantages. In order to do so, Six Flags’ key drivers of advantages must be identified. These key drivers include partnership with mass media providers, quantity and proximity of park locations, and the reputation of having the most thrilling rides. From there, each key driver is analyzed, in order, to determine if the capability is valuable, rare, easily imitated, and organizationally exploited. It is important to note that a firm cannot achieve the following characteristic of the VRIO framework without first achieving the previous one.

In terms of partnership with mass media providers, Six Flags experiences competitive parity with its rivals, because the majority of theme park industry leaders have also partnered with some sort of mass media creator in order to enhance the experience in their parks. For example, Six Flags has an agreement with Warner Brothers to leverage DC Comics characters, and Universal Studios, a competitor of Six Flags, has an agreement with Warner Brothers to leverage Harry Potter in its Islands of Adventure park. Although a valuable investment and relevant capability, partnerships with mass media providers are not rare and, therefore, are not a source of sustainable competitive advantage.

In terms of quantity and proximity of locations, Six Flags has a sustainable competitive advantage, achieving all four aspects of the VRIO framework. Because many of its competitors operate in Florida and California, there is a massive untapped population throughout the
remaining United States. To increase market share, Six Flags successfully opened over a dozen locations all across the country, all the while carefully avoiding operations in Florida. This strategic selection of locations gave Six Flags first-mover advantages and control over much of the amusement park industry in certain large cities, including Atlanta, Chicago, and San Antonio.

Finally, Six Flags works hard to strengthen its capabilities and reputation around being a provider of the world’s most thrilling rides. Six Flags’ focus on engineering and innovation of thrilling rides surpasses its larger competitors, such as Disney and Universal. The capability is undeniably valuable, since customer traffic spikes after the release of a new coaster to an amusement park. While the existence of roller coaster technology is not rare, the caliber of output from the Six Flags engineering team is rare. No competitor has yet released a roller coaster that can beat Six Flags’ Kingda Ka ride with a 418 foot drop. In order to imitate rides like Kingda Ka, competitors must build an expert engineering team, which includes coaster and project engineers, who manage the design and layout, electrical and design engineers, who add the control systems, structural engineers, who ensure the coasters are sound and resilient to all potential elements, and mechanical engineers, who install any chains, lifting systems, and breaks. In addition to paying salaried wages around $75,000 per engineer, the competitor also must invest in the raw materials, software programs, and other input factors that go into developing the roller coaster. Overall, the cost to engineer a roller coaster ranges from $3 to $30 million per ride. Therefore, the capability of developing thrilling rides is costly to imitate.

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The engineering talent within Six Flags is astounding; however, looking at the organizational structure within Six Flags, it is unclear where these engineers reside. No formal research and development or ride innovation department exists, leaving the engineers dispersed throughout the domestic and international park departments. If Six Flags wants to hit its goal of releasing a new roller coaster in every park every year, the firm must value and prioritize its engineering talent. Only by intentionally allocating resources to engineering efforts, providing company-wide support, and defining clear lines of authority that allow cross-functional collaboration will this goal be attainable. Therefore, changes to the current organizational structure and internal processes must be made. By taking a concerted effort to provide more organizational support to the engineers, Six Flags can transform this temporary competitive advantage to a sustainable competitive advantage.

**SWOT Analysis**

As part of the overall business analysis, a SWOT analysis was conducted to understand areas of sustained success and opportunities for improvement. Four strengths were identified, which serve as internal differentiators. First, Six Flags has established strong, strategic partnerships with Warner Brothers Entertainment, Coca Cola, Coppertone, ICEE, Mars, Tyson, and many others. These unique, inimitable partnerships draw customer loyalty and differentiate them from the other regional and national players. Second, Six Flags’ ability to maximize the value from each customer through in-park spending initiatives is incredibly beneficial when considering the importance of increasing the value created to the customer and profit to the bottom line. In-park spending accounted for more than 37% of total revenues in 2018.\(^\text{18}\) This includes merchandise, games, food, and beverages, which can be purchased after the initial ticket is purchased and once the customer is inside the parks. Third, Six Flags stands out

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thanks to its world-class roller coasters. Six Flags has successfully designed and executed record-breaking rides, which thrill and excite everyone who rides them. For example, Six Flags parks are home to four of the top ten fastest roller coasters in the United States and second fastest worldwide.\(^{19}\) The final strength identified is Six Flags’ strategy of positioning its parks near or in major urban cities where the average disposable incomes are higher. By situating parks in middle to high income areas, Six Flags is able to sustain a steady stream of visitors due to their desire to purchase the luxury service.

When considering weaknesses of Six Flags, the inability for several of the Six Flags parks to remain operational year round significantly limits revenue. Many parks are closed from late December until mid-April, which completely halts all potential revenues Six Flags could otherwise be earning. Second, the capacity constraints of many of the parks limit room for growth. Because many of the parks are located in major urban cities, highways, roads, and other businesses, Six Flags is physically unable to create large amounts of additional capacity. Instead, whole parks must be created or redesigned for optimal usage.

Focusing externally, Six Flags has several opportunities that can be capitalized to increase its earning potential. The first opportunity to exploit is the upward trending United States economy. With the level of disposable income rising, more people are able to afford a Six Flags ticket, as it is a non-commoditized experience. Other opportunities for Six Flags to grow is by expanding into foreign markets. By entering untapped world markets, Six Flags can expand their brand into new regions and capture new market share that otherwise would not been possible. The competition is far more intense in the United States than it is in foreign markets; therefore, forgoing the investment of continually building in the bloody, competitive waters of the United States and entering the blue, inactive waters of the foreign markets is enticing. Six Flags’

final opportunity for growth is partnering with other local attractions, offering discounted ticket prices. This strategy gets more customers into the parks where customers will likely continue to spend money on food, games, and merchandise.

The biggest threat that Six Flags faces is the other industry competitors, such as Disney World and Disneyland, Universal Parks, Busch Gardens, and SeaWorld. Additionally, substitute activities, including skiing, concerts, circuses, and fairs also serve to detract customer traffic. Each of these activities and competitors directly divert potential revenue away from Six Flags and into a competitor or substitute’s pocket. The existence of the competitor and substitute is not the only threat, though; their licensing agreements and contracts decrease Six Flags’ ability to secure desirable suppliers and increase the power of specialized suppliers overall. The technology and materials required to build a roller coaster only come from a select number of sources where the competition is high and prices are determined by the firm rather than the market. Being aware of these factors that make up Six Flags’ business sphere allows the firm to make an informed and practical decision on how to structure its business.

Business Level Positioning Strategy

Currently, Six Flags’ business level positioning strategy is cost leadership. Being in an oligopoly structure with very few firms and intense competition, there is a lot of pressure on Six Flags to reduce its price of admission. Two of its biggest competitors in the amusement park industry are Walt Disney World and Universal Studios. Disney offers its lowest daily price of admission for $109. In addition, Disney also provides patrons with the option to purchase a “park-hopper” ticket, which permits entrance to any of its parks. Universal Studios also sets its ticket price at $109 dollars per day. With the reality that Six Flags’ perceived customer value is

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inferior to Disney and Universal Studios, Six Flags strategically cuts their daily admission price in half, attempting to secure the cost-sensitive customers with an entrance fee of $51.

While Six Flags has traditionally served as the low-price provider, Six Flags’ recent initiatives toward increased innovation of its rides show a desire to increase the perceived value by customers and adopt a blue-ocean strategy. The desire to surpass competitive parity and deliver world-class rides led Six Flags to release the fastest roller coaster in America, Kingda Ka, located at its Jackson, New Jersey theme park. The thrill ride reaches the speed of 128 miles per hour. Additionally, Six Flags puts on several themed events, such as Halloween “Fright Night” and a safari adventure, which enhances its value innovation attempt.

In order to avoid financial blunders and investor frustration, Six Flags must be careful to ensure that efforts to increase customers’ perceived value, such as the money invested in the ride technology, is proportionately benefitting profitability. Otherwise, Six Flags will find themselves impossibly stuck in the middle with a low ticket price and high expenses.

Problem Statement

With the competitive oligopoly structure in the amusement and theme park industry, Six Flags must reevaluate the best mode to increase market share. Six Flags could improve its positioning by increasing capacity or increasing revenue generated at parks. Regarding capacity, a weak correlation exists between park attendance and cash flows. While attendance is an important metric in terms of planning and sizing, there is a weak correlation between it and cash flows. Revenues are the more important factor when considering the theme park as a business.\(^2\) Therefore, the focus should not be on spending billions to build more parks to

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increase capacity; instead, the focus should be on extracting more value out of the customers that are currently in the park. Focusing on revenue instead of capacity is the wisest because success factors within the amusement and theme park industry are ill-defined. Therefore, replicating success from market to market becomes very difficult and situational. It is imperative to apply risk-management principles and intentionally attempt to limit downside when entering new, foreign markets. Since Six Flags is a public company that has a turbulent history with its investors, the goal should be to decrease the potential for lost investments. To appropriately formulate a strategy and measure performance, top-line revenues, profit margins, and development cost should be the three factors considered. Particularly, finding a tradeoff between the three factors that fits within Six Flags' capabilities and purse is critical. It would be a mistake to model strategic decisions and determine appropriate spend blindly after first-movers and industry giants like Disney.

Understanding that opening new revenue streams and expanding the existing revenue streams is the priority, Six Flags should consider international expansion. Market growth is limited within country borders and efforts at increasing the perceived value of an already demanding customer base is costly. By moving into international markets, Six Flags has the opportunity to gain market share, move toward a value innovation strategy, and expand its brand globally.

Recommendations for Future Strategic Modifications

**Strategy #1: Increase In-Park Spending Opportunities**

The first strategic option is to increase in-park spending through development of Six Flags' membership programs. In doing this, Six Flags moves toward a value innovation strategy by increasing the perceived value for its customers.
In order to increase customer spending, Six Flags could create a credit-card-based reward system. The strategy efficiently builds upon its current Season Pass program, which offers discounts on tickets and access to all 26 parks with a credit card sponsorship partner. Similar to its competitors, the Six Flags would partner with an available credit card company to offer an exclusive Six Flags credit card that will earn cardholders discounts on park tickets, local hospitality options, and products of vendor partners. Disney currently has a partnership with a credit card provider, Chase, to provide in-park discounts on things like food, merchandise, and tours, as well as exclusive experiences, such as character meet-and-greets. The Disney program also leverages its brands like Star Wars, offering discounted tickets on the franchise films to Disney cardholders. Similarly, Universal Studios has a partnership with American Express that offers exclusive movie screenings to cardholders. Although Universal does not have a specific credit card like Disney, the firm offers perks to all American Express cardholders.

Of the credit card opportunities mentioned, Six Flags should consider following the model used by Universal Studios, which involves a strategic alliance with an existing credit card provider. Due to delays in Six Flags’ Chinese ventures in 2017, Six Flags had a 38% decline in sponsorships that led to a revenue dip of $15 million. Additionally, Six Flags’ share price has suffered due to the retirement announcement of CEO Jim Reid-Anderson. Developing an independent program is deemed too costly and risky. However, the following current events have, unfortunately, placed Six Flags in a difficult position to secure an exclusive credit card partnership. An opportunity for a strategic alliance partnership, if it exists, lies with Capital One, whose shares declined 15% over the last 12 months due to underperforming revenues.

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22 “Manage My Disney Rewards Dollars.” Disney Rewards, disneyrewards.com/manage-account/#/.  
23 De Silva, Dilantha. “Capital One Has Received A Beating And Now It’s Time For Investors To Assess Future Prospects.” Seeking Alpha, 27 Mar. 2019,
companies who need to increase revenues, they could potentially look to each other for a valuable partnership.

The second avenue to increase customer spending is to create a Six Flags Dollar reward system. As part of its credit spending, Six Flags would gain percent rewards back that are directly transferable to the parks. These funds could be spent on tickets, merchandise, and opportunities, like character experiences. Six Flags’ competitor Disney has a similar program called Disney Dollars that has increased their firm-related spending. This type of program is especially relevant because Six Flags’ recent increased revenue growth was primarily driven by a six percent increase in in-park spending per capita. As its second largest driver of revenue next to ticket sales, in-park spending is a justifiable target for a strategic move in competitive positioning.

Ultimately, with partnerships and sponsorships accounting for only 5% of overall revenue, the strategy of engaging in a credit card partnership is not independently sufficient to significantly increase market position. Additionally, this recommendation is solely reliant on the supplier, the credit card company needed for the strategic alliance. In 2016, Discover card was partnered with Six Flags for a similar program and chose not to renew their partnership. With historical complications with credit card providers and the small marginal revenue growth opportunity, the strategy’s gains are minor.

**Strategy #2: Go Global via Internal Development**

Second, the opportunity for Six Flags to build its own theme parks on the international stage was considered. A greenfield investment would require a substantial amount of money in land, research and development, construction, and other overhead costs that are incurred with such a venture. Because the prospective park would be independently built by Six Flags, it

would be strategically sound to utilize Six Flags’ brand by extending the partnerships and media within the existing parks to the new park. Six Flags would achieve a ubiquitous theme, creating an international brand that is recognized by millions across the world. This strategy’s benefits include Six Flags’ capability to maintain international control of its brand while also realizing new market share. Although profitable when done right, this strategy has some inherent risks that should be considered throughout the decision making process. Primarily, the expensive nature of the investment makes it highly risky. Industry averages show that it costs around $300 million and 2 years to build a new theme park. The extended time includes winning zoning approval from regulators and finding large enough pieces of land to situate a park. The time to build is an important characteristic because of the timeline set for investors. Recently, Six Flags’ stock price took a hit because the firm announced that its parks in China would not be open as soon as projected, impacting projected revenue and share price. Furthermore, navigating cultural sensitivities, government regulations, and language barriers can be challenging, frustrating, and expensive. Cultural distance challenges and expensive investments can put pressure on Six Flags to hold its weight internationally with its globally-recognized competitors. With incumbent firms, such as Disney, already thriving in select international markets, Six Flags’ inferior brand strength is likely to struggle when entering neighboring regions.

**Strategy #3: Go Global via Strategic Alliance**

Third, the strategy of going global via a strategic alliance was considered. The idea is to use Six Flags’ headquarters in Grand Prairie, Texas as a center for roller coaster design and innovation. By focusing research and development efforts in the United States, Six Flags can become a supplier of thrilling rides and groundbreaking technology to international partners. The

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United States has a national competitive advantage regarding research and development of roller coasters, because compared to their prospective international operators, the United States is the most advanced regarding established infrastructure and quality of input factors (engineering talent). Additionally, the oversaturated United States amusement and theme park market pushes firms to seek differentiating factors, which include ride innovation. Due to the multitude of entertainment options within the United States, the low switching costs of buyers also drives efforts to differentiate via thrilling rides. Overall, the characteristics of favorable factor conditions, intense demand conditions, strong competitive intensity in the focal market, and strong presence of related and supporting industries and complements provides evidence that focusing research and development within the United States has the highest probability of benefiting both parties.

Six Flags can minimize the costs of tailoring to local expectations by entering into a strategic alliance, likely a long-term contract in which Six Flags licenses out its roller coaster technology, with international theme park operators. The international owners can focus on expending money on theming and general park operations while Six Flags can expend money on the rides. This alliance is mutually beneficial because the strategy creates a revenue opportunity for both parties. It benefits the international operators because they receive innovative technology that will drive revenues in their parks, and it benefits Six Flags because the licensing of the ride technology opens a new, untapped revenue opportunity. Six Flags can reap revenue from the initial sale of the coaster to the international operators. Based on industry research, most large coasters are initially valued at 20 million dollars. A reclaimed coaster can be sold at 80% of its original value, which would be around four million dollars.  

negotiating royalty rates into the licensing agreement, Six Flags can benefit from the increase in sales from its international operating partners.

This strategy is most indicative of a transnational strategy, in which the firm thinks globally and acts locally. However, the strategy is a bit different in regard to the span of control, since Six Flags would be the entity thinking globally and the international operators would be the entities independently acting locally. Because Six Flags is not responsible for the financial performance of the international operators, Six Flags will not incur excessive costs that come from pursuing a localized differentiation strategy. If Six Flags acquired each of these international operators and continued to tailor each park to its local culture, the strategy would be multidomestic in nature. Because Six Flags’ goal is to contain costs and avoid the differentiation strategy, the transnational strategy previously mentioned makes the most sense from a value creation and cost perspective.

However, there are a couple risks related to this strategy. First, Six Flags opens the door for expropriation of intellectual property. Theoretically, the international operators could reverse engineer the licensed coasters, leaving Six Flags in a competitive parity situation in the global market. However, due to the variance in capabilities between the international operators and Six Flags, it is unlikely that they will dedicate their resources to attempting to recreate the United States engineers’ work. Also, the caliber of engineering talent within the United States is higher than Six Flags’ prospective international operators. Therefore, while the impact of expropriation would be high, the likelihood is low. Second, the nature of a licensing agreement is that Six Flags does not have control over the management and day-to-day operations of the international parks. If an international operator is ill-equipped and leads the park into bankruptcy, it potentially could hurt the reputation of the Six Flags brand. Depending on how public Six Flags is with its licensing agreement, though, the impact would likely be negligible.
The benefits of this strategy include a new revenue opportunity, which was mentioned earlier, as well as the flexibility to enter new markets. If Six Flags finds a particular market to be significantly profitable, the firm could consider acquiring the park with which it has the licensing agreement and/or invest in a greenfield investment nearby. On the other hand, if the region is fraught with difficulties, Six Flags can easily divest and sever the licensing agreement. Given the risky, capital-intensive nature of the theme park industry, this strategy offers a unique benefit of having little to no assets tied up in the investment. Lastly, this strategy creates a new core competency for Six Flags. Previously, advanced coaster technology was not a core competency because Six Flags was not organized to create value from the technology. However, by adding a research and development team in Grand Prairie, Texas, adopting an intentional approach to development, and creating a legal team to effectively negotiate the licensing agreements, Six Flags can maximize the value that comes from developing new coasters. Industry experts express the riskiness of building new theme parks with the reality that “spending the billions is no guarantee of success. The factors leading to success in the theme park business are ill-defined. As much as consultants will tell you they know what to do, each park’s market dynamics are impossible to predict. The best thing you can do, as a park developer, is to approach this as a risk management exercise and limit your downside.”  

26 By entering into a flexible strategic alliance, Six Flags will take into account the nature of the industry and will effectively limit the risk of a lost investment.

Decision

Upon review of the three aforementioned recommendations, Six Flags should pursue the third strategy of licensing its world-class roller coaster technology to existing international parks. By pursuing the domestic growth strategy, Six Flags is merely putting a band-aid on a much larger problem. Marginal market share will be realized and will pale in comparison to the steep investment costs. With the international build strategy, Six Flags will adopt more risk than what should be taken on at the current time. If the pursuit were to fail, the losses could be detrimental. By pursuing the international strategic alliance strategy, Six Flags absorbs minimal risk and allows the firm to feel out new markets before demonstrating irreversible commitment, such as establishing its own parks. The strategy also gives Six Flags a new core competency by organizing itself to capture the most value from its world-class coaters and negates the costs of having to “brand” each of the rides, as the partner parks will perform the theming themselves. Lastly, by marketing Six Flags as a developer and distributor of world-class roller coasters, Six Flags will gain first-mover advantage into new markets and have the flexibility to forward integrate, should the opportunity be profitable.

Implementation

To determine which international markets Six Flags should enter, ten factors were considered: level of cultural distance, ease of doing business, geographic distance, presence of Six Flags partners in the region, level of existing infrastructure, level of disposable income of visitors, population of surrounding area, attractiveness of the labor force, and ability to operate year round. A Weighted Factor Index was used to rank seven potential regions along the ten factors. The score for each region was calculated by adding the various factor scores together.
The factor scores were calculated by multiplying the importance of the factor, which is a weight from zero to one, times the factor score, which is an integer from one to ten. The factors surrounded by asterisks have inverted scores. For example, the United States’ cultural distance was initially deemed 0; however, once the score was inverted for comparability with the other factors, the score was changed to 10. Since the cultural and geographic distance factors have been appropriately inverted, the larger the integer, the more favorable the region for the specific factor. The seven regions considered were India, Brazil, Chile, Southeast Asia, the United States (controlling variable), Mexico, and Canada. The output of the model shows that the ideal markets to enter are Chile, Canada, and India.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Importance Rating</th>
<th>India</th>
<th>Brazil</th>
<th>Chile</th>
<th>Southeast Asia</th>
<th>US</th>
<th>Mexico</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>***Level of cultural distance</td>
<td>0.01</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>10</td>
<td>5</td>
<td>7</td>
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<tr>
<td>Ease of doing business (administrative, regulatory, and political factors)</td>
<td>0.2</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>***Geographic distance</td>
<td>0.01</td>
<td>3</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>10</td>
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<tr>
<td>Existing licensing agreements with Warner Brothers</td>
<td>0.06</td>
<td>7</td>
<td>8</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>5</td>
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<tr>
<td>Feasible to enter into a strategic alliance with an existing theme park</td>
<td>0.25</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Level of existing infrastructure</td>
<td>0.1</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Level of disposable income of visitors</td>
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<td>2</td>
<td>4</td>
<td>6</td>
<td>5</td>
<td>10</td>
<td>4</td>
<td>9</td>
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<td>Population of surrounding area</td>
<td>0.1</td>
<td>8</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>6</td>
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<td>Labor force (availability, cost, and ease of management)</td>
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<td>8</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>7</td>
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<td>Ability to operate year-round</td>
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<td><strong>Total</strong></td>
<td><strong>16</strong></td>
<td><strong>5.26</strong></td>
<td><strong>5.39</strong></td>
<td><strong>5.14</strong></td>
<td><strong>7.00</strong></td>
<td><strong>5.47</strong></td>
<td><strong>6.38</strong></td>
<td></td>
</tr>
</tbody>
</table>

Chile’s strengths rely on its feasibility to enter into a strategic alliance and high level of disposable income of its visitors. Santiago, Chile contains an existing theme park, Fantasilandia. This successful theme park historically has outsourced research and development of its rides to
European engineers in Switzerland and Italy. Therefore, the existing park operates in tandem with the strategy Six Flags should adopt and could serve as an understanding, established partner. Canada’s strengths lie in its low cultural distance, established infrastructure, and high level of disposable income of its visitors. In Calgary, a unique park exists, Calaway Park. Calaway Park is owned by the main trade association within the industry, the IAAPA. However, the agency manages the park in a decentralized manner, encouraging entrepreneurial drive and increased creativity by the park operators. Therefore, there is liberty and support when entering into strategic alliances with other players within the industry. This unique setup aligns well with Six Flags’ desire to serve as a supplier for parks like Calaway Park. India’s strengths lie in the feasibility of entering into a strategic alliance with one of the four powerhouse parks in the region and the population and disposable income of the surrounding area. Competition within amusement and theme parks in India is growing due to the positive growth rate of the market. The Indian amusement and theme park industry is set to more than double revenues to Rs 4,000 crore from Rs 1,700 crore in annual revenues by 2020. The sector is growing at a compounded annual growth rate of 17.5% over the past few years. The four key players, Oysters’ Gurgaon in the north, Wonderla Bangalore in the south, Essel World Mumbai in the west, and Nicco Park, Kolkata in the east, will be looking for quick ways to beat their competitors. The allure of taking a few weeks to draft a contract will be preferable to taking years to develop an engineering team. The customer desire for thrilling coasters is in India; therefore, the sales opportunity for Six Flags is significant. Whether Six Flags chooses to enter

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all three regions or only one, many favorable options exist regarding strategic alliances with international operators.

Further implementations considerations for this strategy will demand Six Flags to make organizational and operational adjustments to be able to capture the most value out of this endeavor. The first organizational change to be made will be the development of an international legal advisory team, which will oversee and moderate all foreign business dealings. Additionally, the increased attention to engineering and ride development creates a need for a new, focused research and development department. After creating the new focus area, Six Flags must selectively hire additional engineers to match the increased workload. Operationally, Six Flags will need to establish a standardized operating procedure and cross-functional methodology for the development of its coasters. Whether the project leaders decide a more structured waterfall approach is appropriate or note the importance of the international operator input and select the agile methodology, engineers must be on the same page regarding the cadence and method with which they develop the coasters. Next, careful research and efforts must be made in selecting and implementing an appropriate design software, which will improve collaboration and efficiency between the engineers. The following Gantt Chart has been created, serving as a template timeline for Six Flags to follow to ensure appropriate implementation of the recommended strategy. A Gantt Chart will allow Six Flags to create a timeline on which projects can be scheduled and completed. The schedule will allow Six Flags to optimize their time and allocate the appropriate amount of resources to each implementation and project.
Conclusion

To achieve market growth while properly hedging against the risk of a failed investment, Six Flags should consider entering into a strategic alliance with an existing international theme park operator. New strategic alliances will provide Six Flags with a fantastic opportunity to create new revenue streams in markets where the firm would control the market. The strategy will give Six Flags the opportunity to learn and become familiar with the foreign business procedures, which could be influential in determining potential growth opportunities within those markets. Finally, the new alliances will allow Six Flags to position itself as a value innovator, providing high quality goods and services at a comparably lower cost than its competitors.

Appendix

- Six Flags' Current State Analysis Presentation Slides (Presentation #1):
  
  [https://www.canva.com/design/DADSJoslGOw/piOFAw36-XK5dTAmNe_YA/view?utm](https://www.canva.com/design/DADSJoslGOw/piOFAw36-XK5dTAmNe_YA/view?utm)
Six Flags’ Strategy Recommendation Presentation Slides (Presentation #2):  
https://www.canva.com/design/DADXHu6j0Ys/QirZ5JZfLqItWOxTXtZdfg/view?utm_content=DADXHu6j0Ys&utm_campaign=designshare&utm_medium=link&utm_source=sharebutton

Weighted Factor Index and Implementation Timeline:  
https://docs.google.com/spreadsheets/d/1yQPbnTwpDm0Rb7YPRU3z-c-54Okki4Q1_byPjOTLg2c/edit?usp=sharing