

CASE 22

WORLD WRESTLING ENTERTAINMENT*

World Wrestling Entertainment (WWE) announced on January 27, 2013, that its WWE Network, which had been launched just 11 months earlier, had surpassed 1 million subscribers, making it the fastest-growing digital subscription service. The new subscription-only streaming video service provided viewers with round-the-clock access to wrestling matches, including pay-per-view events that were once only available on cable and satellite channels. Viewer data continued to indicate that, on average, close to 90 percent of subscribers accessed the network at least once a week and 85 percent of subscribers were satisfied with it. "We're thrilled that we've surpassed the 1 million subscriber milestone in less than a year," stated CEO Vince McMahon.¹

The success of the WWE Network, along with programming on YouTube, helped to further the firm's goal of coupling its live wrestling matches with programming on television, on the web, and on mobile devices, allowing it to become one of the world's most social brands. The firm added to its presence on the Internet with an exclusive, multiyear agreement to bring WWE programming to Hulu Plus, offering semi-day access to its television programs and other exclusive shows. Its apps for smartphones and tablets had also taken off with the launch of WWE Active in 2012.

All of these achievements clearly indicated that WWE had moved out of a slump that it had endured between 2001 and 2005. During the 1990s, Vince McMahon had used a potent mix of stunts, pincer, and pumped-up muscular brawls; biceps, heavily-clad, and sometimes cosmetically enhanced beauties; and body-bashing clashes of good versus evil to build an empire that claimed over 35 million fans. Furthermore, the vast majority of these fans were males between the ages of 12 and 34, the demographic segment that makes most advertisers drool.

Just when it looked like everything was going well, WWE hit a rough patch. The firm's failure with a football league during 2001 that folded after just one season was followed by a drop in revenues from its core wrestling business. WWE was struggling with its efforts to build new wrestling stars and to introduce new characters into its shows. Some of its most valuable younger viewers were also turning to new reality-based shows on television, such as *Jarvis*, *Fear Factor*, and *Jackass*.

* Case prepared by David Swanson, Michigan State University, with the assistance of Professor Alan B. Eisen, Penn University. Material has been drawn from published sources to be used for purposes of class discussion. Copyright © 2013 David Swanson and Alan B. Eisen.

Since 2005, however, WWE had been rebuilding its fan base through live shows, television programming, web and mobile content, and consumer products. The firm was turning pro wrestling into a perpetual road show that made millions of fans pass through turnstiles in a growing number of locations around the globe. Its flagship selection programs, *Raw* and *Smackdown!* were broadcast in 30 languages in 145 countries, reaching 600 million homes around the world. WWE was also signing deals with dozens of licensees, including one with toy maker Mattel, to sell DVDs, video games, toys, and trading cards. "We continue to see the distribution of our creative content through various emerging channels," stated Linda McMahon, who stepped down as president and CEO in 2009 to pursue a career in politics.²

Developing a Wrestling Empire

Most of the success of the WWE can be attributed to the persistent efforts of Vince McMahon. He was a self-described juvenile delinquent who went to military school as a teenager to avoid being sent to a reformatory institution. Around 1970, Vince joined his father's wrestling company, which operated in northeastern cities such as New York, Philadelphia, and Washington, D.C. He did on-air commentary, developed scripts, and otherwise promoted wrestling matches. Vince bought the wrestling firm from his father in 1982, eventually renaming it World Wrestling Federation (WWF). At that time, wrestling was managed by regional fiefdoms in which everyone avoided encroaching on anyone else's territory. Vince began to change all that by paying local television stations around the country to broadcast his matches. His aggressive pursuit of audiences across the country gradually squeezed out most of the other rivals. "I banked on the fact that they were behind the times, and they were," said Vince.³

Soon after, Vince broke another taboo by admitting to the public that wrestling matches were scripted. Although he had made this admission in order to avoid the scrutiny of state athletic commissions, wrestling fans appreciated the honesty. The WWF began to draw in more fans through the elaborate story lines and the captivating characters of its wrestling matches. The firm trained wrestlers such as Hulk Hogan and Andre the Giant into mainstream icons of pop culture. By the late 1980s, the WWF's *Raw* is War had become a top-rated show on cable, and the firm had also begun to offer pay-per-view shows.

Vince faced his most formidable competition after 1988, when Ted Turner bought out World Championship Wrestling (WCW). Vince also ensured that his firm owned the rights to the characters that were played by his wrestlers. This would allow him to continue to exploit the characters that he developed for his television shows, even after the wrestler that played a character had left his firm. By 2013, Vince held the rights to many characters that had become familiar to audiences around the world.

By the late 1990s Vince had two weekly shows on television. Besides the original flagship program on the USA cable channel, WWE had added the *Smackdown!* show on the UPN broadcast channel. He developed a continuous story line using the same characters so that his audience would be drawn to both shows. But the acquisition of the WCW resulted in a significant increase in the number of wrestling stars under contract. Trying to incorporate almost 150 characters into the story lines for WWE's shows proved to be a challenging task. At the same time, the move of *Raw* to the Spike TV channel resulted in a loss of viewers.

In October 2005, WWE signed a new agreement with NBC that moved *Raw* back to its USA channel. Its other show, *Smackdown!* moved to the Syfy channel and was climbing in the charts. In network show, *Total Divas*, was recently launched on the E! news show. All of these programs were doing well in ratings, particularly among male viewers, because of the growth in popularity of a new breed of characters such as John Cena, Chris Rock, Ray Myerico, and Triple H. The visibility of these characters was enhanced through profiles on the WWE website and mobile apps.

Managing a Road Show

A typical workweek for the WWE was often grueling for the McMahons, for the talent, and for the crew. In 2013 the organization was putting on almost 330 live shows a year, requiring everyone to be on the road most days of the week. The touring crew comprised over 200 crew members, including stagehands. All of WWE's live events, including those that were used for its two long-standing weekly shows *Raw* and *Smackdown!* as well as the newer ones, were held in different cities. Consequently, the crew was always packing up a dozen 18-wheelers and driving hundreds of miles to get from one performance to the other. Since there were no repeats of any WWE shows, the live performances had to be held year-round.

In fact, the live shows formed the core of all of WWE's businesses (see Exhibit 1). They gave the firm a big advantage in the entertainment world. Most of the crowd showed up wearing WWE merchandise and screamed throughout the show. Vince and his crew paid special attention to the response of the audience to different parts of the show. The script for each performance was not set until the day of the show, and sometimes changes were even made in the middle of a show. This allowed the crew some flexibility to respond to the emotions of the crowd members as they witnessed the unfolding action. Vince boasted: "We're in contact with the public more than any entertainment company in the world."⁴

Wrestling (WCW), one of the few major rivals that was still operating. Turner spent millions buying away WWF stars such as Hulk Hogan and Macho Man Randy Savage. He used these stars to launch a show on his own TNT channel to go up against WWF's major show, *Raw* is War. Although Turner's new show caused a temporary dip in the ratings for WWF's shows, Vince fought back with pumped-up scripts, mouthy musclemen, and lycra-clad women. "Ted Turner decided to come after me and all of my talent," growled Vince, "and now he's where he should be."⁵

In 2005, Vince was finally able to acquire WCW from Turner's parent firm, AOL Time Warner, for a bargain price of \$5 million. Because of the manner in which he eliminated most of his rivals, Vince earned a reputation for being as aggressive and ambitious as any character in the ring. Paul MacArthur, publisher of *Wrestling Perspective*, an industry newsletter, praised his accomplishments: "McMahon understands the wrestling business better than anyone else. He's considered by most in the business to be brilliant."⁶

In 2002, WWF was hit by a ruling by a British court that its original acronym WWF belonged to the World Wildlife Fund. The firm had to undergo a major branding transition, changing its well-known name and triple logo from WWF to WWE, for "World Wrestling Entertainment." Although the change in name was costly, it remained unclear whether it would hurt the firm in the long run. "Their product is really the entertainment. It's the stars. It's the bodies," said Larry McNaughton, managing director and principal of CoreBrand, a branding consultancy.⁷ Vince's wife, Linda, stated that the new name paid the emphasis on the "E" for entertainment,⁸ she commented.

Creating a Script for Success

Since taking over the firm, Vince had been changing the entire focus of the wrestling shows. He looked to television soap operas for ways to enhance the entertainment value of his live events. Vince reduced the amount of actual wrestling and replaced it with wacky yet somewhat compelling story lines. He began to develop interesting characters and create compelling story lines by employing techniques that were quite similar to those being used by many successful television shows. There was a great deal of reliance on "good versus evil" or "betting the score" themes in the development of the plots for his wrestling matches. The plots and subplots ended up providing viewers with a mix of nonsense, sex, sports, comedy, and violence against a backdrop of pyrotechnics.

Over time, the scripts for the matches became tighter, with increasingly intricate story lines, plots, and dialogue. All the details of every match were worked out well in advance, leaving the wrestlers themselves to decide only the manner in which they would dispatch their opponents to the mat. Vince's use of characters was well thought out, and he began to refer to his wrestlers as "athletic performers" who were selected on the basis of their acting ability in addition to their physical statures.

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EXHIBIT 1 | WrestleMania's Classic Bouts

Match	Date
Andre the Giant vs. Hulk Hogan	WrestleMania II, March 28, 1987
<ul style="list-style-type: none"> The lowdown: A record crowd of 93,173 witnessed Andre the Giant, undefeated for 15 years, versus Hulk Hogan, wrestling's golden boy. The payoff: Hogan body-slammed the 500-pound Giant, becoming the sport's biggest star and jump-starting wrestling's first big boom. 	
The Rock vs. Stone Cold Steve Austin	WrestleMania 8-7, April 1, 2001
<ul style="list-style-type: none"> The lowdown: The two biggest stars of wrestling's modern era went toe-to-toe in the culmination of a two-year-long feud. The payoff: Good-guy Austin aligned with "evil" WWE owner Vince McMahon and decimated the Rock to win the title in front of a shocked crowd. 	
Hulk Hogan vs. The Ultimate Warrior	WrestleMania VI, April 1, 1990
<ul style="list-style-type: none"> The lowdown: The most divisive feud ever—fan favorite Hulk Hogan defended his title against up-and-coming phenom the Ultimate Warrior. The payoff: Half the crowd went into cardiac arrest (the other half were in tears) when Hogan missed his patented leg drop and the Warrior won. 	
Bret Hart vs. Shawn Michaels	WrestleMania III, March 21, 1996
<ul style="list-style-type: none"> The lowdown: Two men who didn't like each other outside the ring locked up in a 60-minute Iron Man match for the title. The payoff: After an hour, neither man had scored a pinfall. Finally, Michaels, aka the Heartbreak Kid, pinned Hart in overtime to win the belt. 	
Kurt Angle vs. Brock Lesnar	WrestleMania XX, March 30, 2003
<ul style="list-style-type: none"> The lowdown: Olympic medalist Angle squared off against former NCAA wrestling champ Lesnar in a punishing bout. The payoff: The 295-pound Lesnar landed on his head after attempting a high-flying attack. But he recovered to pin Angle and capture the championship. 	

Source: TV Guide.

The live shows usually filled up, and the tickets and the merchandise sold at the shows managed to cover the cost of the production. But these live performances became a source for all the other WWE revenue streams. To begin with, they provided content for six hours of original television programming as well as for the growing list of pay-per-view and video-on-demand programming. In addition, these performance shows also created strong demand for WWE merchandise, ranging from video games and toys to magazines and home videos. In fact, sales of merchandise represented a significant and growing portion of the revenues from each of the live shows.

Much of the footage from the live shows was also being used on the WWE website, which is the growth engine for its new digital media business (see Exhibits 2 and 3). The firm even produced a show, *WWE NXT*, exclusively for the

website. WWE also offered content on the apps that it had launched for smartphones and tablets. Finally, fans could also follow programming on Hulu Plus, with which the firm signed an exclusive multiyear contract in 2012. All of these channels served to promote the various offerings of the firm and carried many segments from its various other television programs.

The entire operations of WWE were overseen by Vince, along with some help from other members of his family. While the slick and highly toned Vince could be regarded as the creative muscle behind the growing sports entertainment empire, his wife, Linda, had for many years been quietly managing its day-to-day operations. Throughout its existence, she had helped to balance the books, do the deals, and handle the details that were necessary for the growth and development of the WWE franchise.

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EXHIBIT 2

Breakdown of Net Revenues (\$ million)

Net Revenues	2014	2013	Increase (Decrease)
Media Division	\$29.9	\$22.7	12%
Live Events	110.7	113.1	(2)
Consumer Products Division	78.1	78.5	(1)
WWE Studios	10.9	10.8	1
Corporate & Other	3.0	2.9	3
Total	\$242.6	\$208.0	7

Source: WWE.

EXHIBIT 3

Breakdown of Income, EBIT (\$ million)

EBITDA	2014	2013	% Change
Media Division	\$98.4	\$117.0	(16%)
Live Events	30.8	27.9	14
Consumer Products Division	41.2	41.1	—
WWE Studios	(12.7)	(5.9)	121
Corporate & Other	(22.3)	(16.6)	9
Total	30.4	63.2	(52)
EBITDA as a percentage of revenues	6%	12%	

Source: WWE.

Their son and daughter had also been involved with various activities of the growing enterprise, with Stephanie McMahon holding an executive position in charge of creative development.

Pursuing New Opportunities

In 1999, shortly after going public, WWE launched an eight-team football league called the XFL. Promising full-contact football on the heavily-scripted wrestling matches, Vince tried to make the XFL a faster-paced, more fan-friendly form of football than the NFL's brand. Vince was able to partner with NBC, which was looking for a lower-priced alternative to the NFL, televised games. The XFL kicked off with great fanfare in February 2001. Although the games drew good attendance, television ratings dropped steeply after the first week. The football venture folded after just one season, resulting in a \$57 million loss for WWE. Both Vince and Linda insisted that the venture could have paid off if it had been given enough time. Vince commented: "I think our pals at the NFL went out of their way to make sure this was not a successful venture."⁹

Since then, the firm returned to seeking growth opportunities that were driven by its core wrestling business. With more characters at its disposal and different characters being used in each of its shows, WWE was

ramping up the number of live shows, including more in overseas locations. By 2014, the firm was staging almost 70 shows in locations around the world. Over the past few years, WWE introduced live performances in six new countries, such as UAE and Egypt. These shows helped to boost the worldwide revenues that the firm was able to generate from its merchandise, videos, and DVDs. The company opened offices in six cities around the world to manage its overseas operations. "While it is based in America, the themes are worldwide: sibling rivalry, jealousy. We have had no pushback on the fact it was an American product," said Linda.¹⁰

Considerable excitement was generated by the launch of WWE 24/7, a subscriber video-on-demand service. The new service allowed the firm to distribute for a few thousands of content-hours consisting of highlights from old shows as well as exclusive new programming. Much of the firm's programming, both old and new, was also offered on its website, which continued to show strong growth (see Exhibit 4). By allowing audiences to watch WWE programming whenever they may want to, these new forms of distribution enabled the firm to reach out to new audiences.

The new push on mobiles and through Hulu provided even more opportunities for WWE to expand into digital media. The firm believed that offering its programming on

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Net revenues	Year Ended December 31		
	2014	2013	2012
Network	\$174,875	\$ 86,294	\$ 87,880
Television	176,870	163,428	140,871
Home Entertainment	27,213	24,322	33,082
Digital Media	20,910	28,661	25,738
Live Events	110,858	113,188	108,514
Licensing	38,585	43,633	46,286
Wrestle Merchandise	19,336	19,387	18,774
WWE/Snap	20,238	15,588	14,780
WWE Studios	10,882	10,778	7,877
Corporate & Other	3,272	2,721	2,481
Total net revenues	\$542,820	\$507,830	\$488,213

Source: WWE.

smartphones and tablets would lead to significant growth in revenues, in part from additional sales of WWE merchandise. "Our fans have proven that they want to consume WWE content day and night and now, through our new mobile apps, they can stay completely connected to the action wherever they are," said Jason Hoch, WWE's recently appointed senior vice president of digital operations.¹¹

Finally, WWE also became involved with producing movies featuring its wrestling stars, releasing a few films over the past decade. Recent releases included Steve Austin's *The Condemned* and John Cena's *Legendary*. In 2015, WWE was working with Warner Brothers on a Scooby-Doo animated feature that deals with a mystery at WrestleMania. WWE superstars and divas were to appear in animated films and lend their voices. Besides generating box office revenues, these movies provided resonance from home video markets, distribution on premium channels, and offerings on pay per view.

Reclaiming the Championship?

Although WWE might have found it challenging to keep building on its already formidable fan base, there was no question that it continued to generate a lot of excitement. Most of this excitement was driven by the live shows that filled up the arenas. "They have the most excited fans that have come through our doors," said the director of sales and marketing at one of the arenas that hosts WWE matches. "They make signs, dress up and cheer constantly."¹² The interest in the live matches was most evident each year with the frenzy created by WrestleMania, the annual pop

culture extravaganza that had become an almost weekly celebration of everything wrestling. No wrestler became a true star until his or her performance was featured at WrestleMania, and all true fans had to make the pilgrimage at least once in their life.

WWE had begun to expand its audience by toning down its sex and violence in recent years to make its shows more family-friendly. It no longer used fake prop blood, and it toned down the use of abusive language in order to get a rating of PG for its television programming. The use of new media, such as the launch of shows through streaming video, was also expected to bring in younger viewers. "I think any good entertainment product has to change with the times," said Vince. "You have to have your fingers on the pulse of the marketplace."¹³

More recently, Vince's wrestling empire was facing a challenge from mixed martial arts (MMA), a growing form of combat sport that combined kickboxing and grappling. Because of its similarity to wrestling, this new sport was expected to pull away some of WWE's fans. Although MMA started in Japan and Brazil, the Ultimate Fighting Championship (UFC) and International Fight League were promoting it as a new type of spectator sport in the U.S. But Dana White, president of UFC, said: "People have been trying to count the WWE out for years. They are a powerhouse."¹⁴

Beyond this, there are questions about the future of WWE after Vince McMahon. Now approaching 69, Vince had single-handedly built his wrestling empire from his father's small regional business. Although he involved his wife and children in the firm, he was always the brains

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ENDNOTES

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