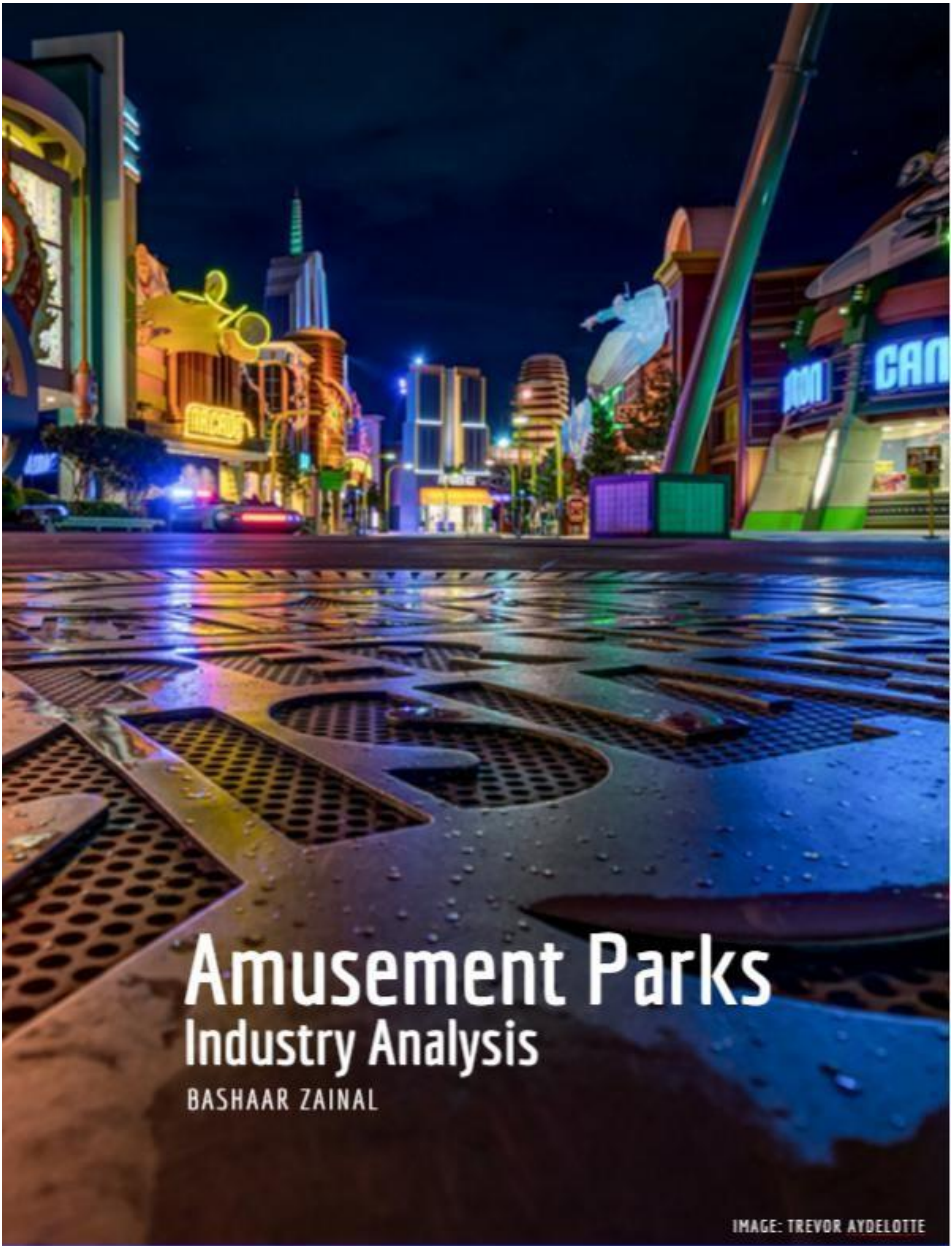

Amusement Parks

Industry Analysis

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IMAGE: TREVOR AYDELOTTE

IBIS WORLD MARKET RESEARCH AND ANALYSIS

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Industry Report and Analysis

Industry Definition

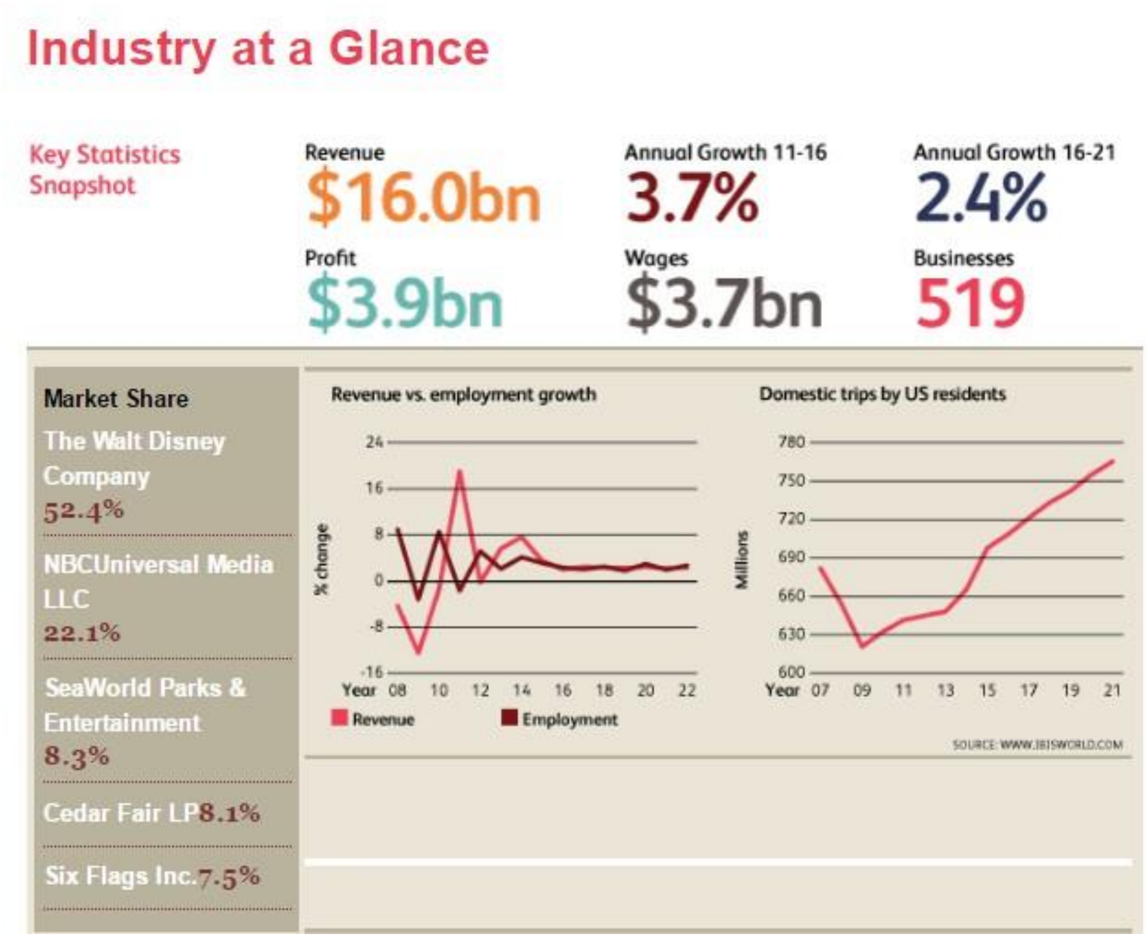
Amusement and theme park companies operate mechanical rides, water rides, games, shows, themed exhibits, refreshment stands and other attractions. Establishments may also lease space on a contract basis. NAICS Code 71311.

Executive Summary

The Amusement Parks industry has grown strongly over the past five years, driven by a rise in international and domestic visitor numbers and rising consumer spending. Five major players dominate the industry: The Walt Disney Company, Universal Parks & Resorts, SeaWorld Entertainment, Six Flags and Cedar Fair, all of which have experienced at least some form of growth over the past five years. Although the industry is highly competitive, the major amusement park operators have used their intellectual property rights to major film franchises and entertainment to their advantage. In recent years, operators of many of the major amusement parks have employed this tactic to propel revenue and increase profit margins. Over the five years to 2016, IBISWorld expects revenue to grow at an annualized rate of 3.7% to $16.0 billion. This includes anticipated growth of 2.0% in 2016 (N. Petrillo 2016: IBISWorld).

Industry Structure

The industry is highly concentrated, with the top five players (Disney, Universal Parks & Resorts, SeaWorld Entertainment, Cedar Fair and Six Flags) accounting for the vast majority of total industry revenue. Disney alone is estimated to earn more than half of the industry's revenue in 2016 and owns the top five most visited amusement parks in the United States. The number of amusement parks in the United States has risen 2.0% per year on average to 622 locations over the past five years. However, the majority of these are small parks catering to a local or seasonal audience. Disney and Universal Parks & Resorts attract millions of visitors each year from all around the world and are seen as must-see destination amusement parks. Of the top 20 most visited amusement parks in the United States in 2016, only one, Hershey Park in Pennsylvania, was not owned by one of the industry's five biggest players (N. Petrillo 2016: IBISWorld).



Many amusement parks are subject to extreme revenue volatility throughout the calendar year, mainly due to seasonal factors such as weather. It is common for amusement parks to earn close to two-thirds of their annual revenue between Memorial Day and Labor Day. School vacations and school start dates also cause fluctuations in amusement park revenue on a seasonal basis. For parks that are open year-round, many incur losses during the winter, which reverses once high-season rolls around. Many parks in the northeast of the country, where heavy snowfall and low temperatures are common, choose to shut down entirely during the winter. To help increase revenue despite the industry's cyclical changes, some water parks in the Northeast and Midwest have transitioned to combination indoor-outdoor parks in order to earn revenue year-round (N. Petrillo 2016: IBISWorld).

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are as follows:

Access to Multiskilled and Flexible Workforce: Due to seasonal variations in the amount of visitors, it is important for operators to have access to a large pool of multiskilled and part-time workers.

Proximity to Key Markets: Operators should choose locations near areas with significant populations and domestic and international visitors.

Carrying Out All Necessary Maintenance to Keep Facilities in Good Condition: Operators must uphold a high level of maintenance and safety so that the park remains attractive and appealing for visitors.

Close Monitoring of Competition: Operators should closely monitor the nearby competition in terms of admission prices and investment; if possible, they should consider developing a joint visitor ticket promotion to attract and hold visitors in the area longer.

Ability to Quickly Adopt New Technology: Operators should continually change visitor displays, thrill rides and other attractions to ensure a high degree of interest and repeat visits.

Membership of Joint Marketing/Distribution Operations: Operators should take advantage of joint ticketing arrangements between nearby entertainers and service providers (not necessarily all theme park operators) in the local area.

Basis of Competition

Competition in this industry is high and the trend is increasing. The industry has achieved a very high penetration rate within the domestic market and operates in the mature phase of its life cycle. Industry consolidation is likely to continue, and operators are expanding internationally in search of new revenue and profit growth opportunities. There are a few very large and dominant industry players, and many small, seasonal operators (N. Petrillo 2016: IBISWorld).

Quality of Experience

To be successful, the most important feature water parks need to have is exciting rides and attractions. Patrons will travel thousands of miles to visit water parks that can offer new, thrilling and unique rides. Successful operators make significant capital investments in new rides and undertake regular maintenance to ensure they can compete with rivals. Branding is also important in this regard because operators need to position themselves as fun, family-friendly destinations. For this reason, amusement parks usually have appealing names like Typhoon Lagoon, Adventure Island and Raging Waters that are specifically geared toward adolescent patrons and their parents (N. Petrillo 2016: IBISWorld).

Price

Amusement parks need to offer visitors value for money, but price is not a huge competitive factor among operators. More important is the amount of time attractions can entertain visitors and the perceived value for money they offer. In many cases, major amusement parks command a large share of a particular market and are geographically distant from any other major parks. Still, because families are the industry's biggest market, tickets must be priced affordably (N. Petrillo 2016: IBISWorld).

Location

Location is another important factor because warm conditions are generally more conducive to amusement park demand, especially in the case of water parks. Amusement parks in Southern California, Texas and Florida can stay open year-round due to the warm climate, while parks in the Northeast and Midwest often only open during summer months and earn all their revenue during that time. Location has become a less important competitive factor during the past decade as combination indoor/outdoor parks have hit the market. These parks offer state-of-the-art water rides and recreation areas in the comfort of an enclosed space, thereby allowing popular attractions to continually generate revenue throughout the entire year (N. Petrillo 2016: IBISWorld).

External Competition

Most of the industry's external competition simply comes from alternative ways that consumers choose to spend their leisure time. The industry operates in a very competitive environment, and there are many other free and ticketed events for consumers to enjoy during the summer months. Live sporting events, music festivals, theatrical performances, outdoor food festivals and other free outdoor events all represent substitutable activities for those who visit amusement parks (N. Petrillo 2016: IBISWorld).

Barriers to Entry

The Amusement Park industry has high barriers to entry, particularly for theme parks with major roller coasters and other attractions. The industry has a high level of concentration, with the four largest players expected to account for more than 80.0% of total industry revenue in 2016. This can pose a significant barrier to entry for new major players, since the sheer cost of constructing worthwhile rides and attractions represent an enormous initial investment. However, significant opportunities exist for smaller and niche players operating in local or regional markets (N. Petrillo 2016: IBISWorld).

At the upper end of this industry, there are significant costs for entry associated with the area of land required, which can vary anywhere between 100 acres to over 300 acres, and the initial capital investment required for buildings (including public facilities), displays and rides. However, not all of the buildings and rides have to be provided initially, since there will be an ongoing requirement to invest in new facilities and displays over time to attract new and repeat visitors (N. Petrillo 2016: IBISWorld).

At the lower end of the industry, entry costs may be relatively lower, but there is still a high need for significant upfront capital investment. For example, the land purchases, installation of public facilities, rides, attractions and concessions all represent costs that industry amusement parks share, regardless of their overall market share (N. Petrillo 2016: IBISWorld).

Industry Globalization

Globalization in this industry is low and the trend is increasing. The industry has a low but increasing level of globalization. The major amusement parks in the United States are owned and operated domestically. Major players such as SeaWorld, Universal Parks and Resorts and the Walt Disney Company, own and operate amusement parks the industry's most popular major parks, but these companies have also expanded their branded parks throughout the world. Over the past five years much focus has been on international markets such as Asia where the industry is growing at a faster rate than in the United States. Major park operators are, therefore, shifting their focus to these growth markets, seeking development opportunities to take advantage of the newfound spending power of the growing middle class in Asia.

International visitors account for a fairly small portion of industry revenue. The largest amusement parks are the most popular among international tourists, although parks of all sizes attract a global base of consumers. As operators expand and upgrade their offerings, international travelers are more likely to value the experience enough to add water parks to their travel itineraries. This is particularly true among international consumers whose home countries do not have large amusements parks (N. Petrillo 2016: IBISWorld).