

Development of media conglomerates by the example of the walt disney corporation



Development of Media Conglomerates by the example of the Walt Disney Corporation Within the last century the media industry in the United States was subject to a major change. Starting in the 1940ies, mainly evoked by the development of the television, the industry changed from the so called studio era¹ to the television broadcasting era². Through the development of television sets it became a lot cheaper for the Americans to watch television at home, than going out to a movie theater or auto theatre. Nevertheless there was still demand for movies, but competition had developed.

Blockbusters were competing against the television program. Starting in the 1970ies cable, satellite, and video services became available. Additionally HBO revolutionized the television industry with the development of the first pay TV box. By 1989 Video players were already possessed by almost two thirds of the American households. ³ All these changes in the industry caused a further development of the companies, which participated in the market. They changed from small companies to huge businesses with the possession of several media channels, including TV stations, magazines, newspapers, radio stations etc.

These companies are called Media Conglomerates. In the following paper, the focus will be on the development of the Walt Disney Company. The development from a small company in the first half of the last century, which struggled in the market, to one of the biggest media conglomerates in the world in most recent times shall be depict as an example for the overall change in the industry. The first part of the paper is about an in-depth explanation of the development of the Walt Disney Company from the foundation until today.

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In the second part of the paper the situation of the media industry nowadays shall be explained at the example of the Walt Disney Company. Furthermore the changes which occurred in the media industry shall be pointed out. The development of the Walt Disney Company: 1 2 Era (1930-1950) in which filmmaking, distribution, and exhibition was dominated by theatre corporations. Era (starting in 1950) in which television became popular and people started to buy television sets to watch TV at home 3 Cp. : Hill, John and Pamela Church Gibson (eds.), The Oxford

Guide to Film Studies (1998) pages 245 ff. 1 The company was founded in California in 1923 by the two brothers Walt and Roy Disney. At that time Walt Disney had just produced his first short cartoon film, called Alice's Wonderland. After a distributor for the first short film was found and the first contract was signed the successful story of the company, managed by the two brothers, was started. The first period of the business development can be set until the beginning of the Second World War. Until 1940 the two brothers had great success with the never ending innovations they created.

After the creation of the first cartoon series, "Oswaldo the Lucky Rabbit" the first full color cartoons were produced by the Walt Disney Company.

Furthermore in 1932 the two brothers were the first to detect merchandising and started to sell merchandise articles to their fans and customers. Within the same decade another novelty of the company was the first animated feature film "Snow White and the seven dwarfs", which was announced in 1937. At that time it was the highest grossing film which was ever shown.

With the beginning of the Second World War the Walt Disney Company got into financial problems.

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The highly innovative business of the Disney brothers was tremendously expensive. As a result they needed high incomes from their produced films to be able to profit from their work. During the war the company was not able to sell their films to foreign markets and therefore it did not have the sales it had before. Earnings decreased and the costly film productions were not profitable anymore. The animated feature films “ Pinocchio”, “ Fantasia”, and “ Dumbo” made losses. Then “ Bambi” was produced on a lower financial basis and was the only movie during the war time which was profitable.

After the war and with the upcoming television trend, Walt Disney was one of the first companies to identify the huge potential of the television technology. In the 50ties the company produced its first television show, the “ Disney Television Show” at Christmas time and additionally launched its first television anthology series “ Davy Crockett” and the “ Mickey Mouse Club”. Both came out to be highly successful. “ Davy Crockett” was on the air for 29 years and the “ Mickey Mouse Club” was one of the most popular children? s series.

Additionally to the step into the television business the Walt Disney Company started to produce life-action films and true-life adventure series. In 1955 the Disney brothers came up with another big innovation. Apart from their movie and television business they invented the idea, planned the project and opened the first amusement 2 park in the world. All the attractions in the park were connected to animated characters of their previous movies and television shows. Two years before his death in 1966

Walt Disney was able to publish another innovation in the film business.
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In the movie “ Marie Poppins” he was able to combine live action, animation and animatronics⁴. The combination of these three was used for the first time in the history of film production. At the beginning of the seventies Roy Disney, who took over supervision of the company, continued to be successful with the movie and television business. In 1971 the Walt Disney Company opened its second amusement park – the Walt Disney World. But this park was not only a theme park, it was a whole vacation destination. With the establishment of the park, Roy Disney added to the originating business fields of the company several new business sectors.

Hotels, campgrounds, golf courses, and shopping villages were included within the park. Soon after the opening of this second park Roy Disney died and a team of the best employees of the company took the business over. They did further developments at the park “ Walt Disney World” and in 1982 the EPCOT (Experimental Prototype Community of Tomorrow) Center was opened, which was a further add-on to the park. In the future several other parks were opened throughout the world (Tokyo in 1983, Paris in 1992) and all of them were continuously modernized and expanded.

The new management founded the WED Enterprises (today Walt Disney Imagineering) in order to manage the theme park and vacation destination branch. During the Eighties the Walt Disney Channel was introduced and a new film label, the Touchstone Television was established to produce network and TV shows. According to the video trend in the industry the Walt Disney Company started to release classic animated films on video cassettes and published classics of their produced movies as Disney Sunday movies on television.

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To be able to become more profitable the management of the Walt Disney Company started to open Disney Stores, in which merchandise products were sold. Soon after the first one was opened in 1988, numerous shops were opened across the world. 5 4 Animatronics is the term which describes the technique of making it possible, that mechanical robots or animated figures move in real time within a movie. 5 Cp. : http://corporate.disney.go.com/investors/fact_books.html (2010) 3

Within the nineties the management team of the Walt Disney Company agreed on moving into several other branches of the media industry. Hollywood Records was established to step into the field of music sales, including the soundtracks of the published movies and other commercial music. Additionally Disney moved into the business of publishing. For this purpose the subsidiaries Hyperion Books, Hyperion Books for children and Disney Press were formed. The subsidiaries were not only used to publish books with Disney content, but also to publish books on non-Disney subjects.

In 1994 Disney's first Broadway musical was released with "Beauty and the Beast" followed by "Lion King". The famous New Amsterdam Theatre on 42nd Street at the Times Square was purchased and renovated. Beginning in 1998 the operations of two cruise line ships with the names "Disney Magic" and "Disney Wonder" were started. Finally the Walt Disney Company got parts of a Hockey Team – The Anaheim Mighty Ducks – and a Baseball Team – the California Angels – but sold the parts after bringing the teams to have major success.

But beside all this steps into new branches two purchases, one in 1996 and one in 2006, had the biggest impacts on the development of Walt Disney Company to a Media Conglomerate. In 1996 Disney acquired the Capital Cities/ABC for \$19 billion. Through this deal the Walt Disney Company grew to the world's biggest and most powerful entertainment company in the world. By the merger Disney became the first media company with a major presence in four distribution systems: the filmed entertainment-, the cable television-, the broadcasting and the telephone wires distribution system.

Next to the ABC television network Disney gained 10 TV stations, 21 radio stations, seven daily newspapers and partly ownership in other cable networks (A&E, Lifetime, History Channel, powerhouse sports network ESPN).

6 The second major deal took place in 2006. The Walt Disney Company bought the former partner Pixar Animation for \$7.4 billion. By this deal Disney took over its former partner Disney released all of Pixar's films until the acquisition – and was able to push its computer-generated business segment, which was not as successful as all the films created by the Pixar Studios.

Furthermore Disney was able to use all the characters of the highly profitable Pixar movies within their merchandising- and theme park businesses. 7

Media conglomerates today: 6 Cp. : <http://www.nytimes.com/1995/08/01/business/media-business-merger-walt-disney-acquire-abc-19-billiondeal-build-giant-for.html> (1995)

7 Cp. : http://corporate.disney.go.com/corporate/complete_history_1.html (2010)

4 As one can see at the

example of the Walt Disney Company, in the past most of the media

companies operated only in one business field.

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Until 1955 the Walt Disney Company was focused on the production of innovative cartoons and feature films. But during the decade of the fifties the company began to concentrate on the development of other new fields of business. Nowadays the Disney media conglomerate operates in the sectors of film production, music sale, radio, television, cable television, home video, book publishing, multimedia, magazines, sports, and various other entertainment holdings like Disney Cruise Line or the various Theme parks and more than 600 retail outlets. ⁸ As a result, one of the key differences in today's media companies compared to the past is the wide variety of media they comprise. Especially interesting is, that the companies do not only focus on horizontal integrated types of media, which would mean, that they own various different types of media such as cable television, broadcast, radio, film and internet but they also focus on being vertically integrated. Vertical integration in the media industry means that a company does not only own the television-, radio-, or internet channel but also produces the content for the distribution on its own.

The Walt Disney Company for example was originally a producer of film and television content. Nowadays, especially through the purchase of Capital Cities/ ABC the company also owns the channels, which can be used to distribute the produced content. By owning both, the production facilities and the channels for the distribution, today's media companies gain huge advantages in the field of cost savings and profit making. One example would be cross marketing. This term stands for the potential of a media conglomerate to use its different channels to advertise its different products.

In the case of Disney for example, the television channels can be used for the advertisement of the other business sectors like the Theme Parks or the Cruise Ships. That would save costs on the one hand and would give the advantage of a good marketing position to the business sectors on the other hand. Another consequence of the media conglomerates is that these companies have a huge market power. They can produce and distribute messages they want the world to know. In a political election for example these conglomerates could publish messages, which could control the public? opinions in a certain direction. Furthermore the trend in the media industry is clearly focused on the concentration of ownership. By the growth of the big media giants, these have so much power, that new entrants in the markets have high barriers to enter the market. New entrants need to spent 8 Cp. : David Croteau, William Hoynes, Media Society (2000), page 42 5 huge amounts of money if they want to have the chance to become successful. Otherwise they do not have a chance to succeed against the big players like Disney.

If one takes a look at the television sector, it can be seen that the sector is dominated by five major networks: Disney? s ABC, Viacom? s CBS, News Corporation? s Fox, General Electric? s NBC, and the non commercial network PBS. Within the last decade two networks try to catch up (The CW and MyNetworkTV), but they only get the chance because they are supported by the already existing big media conglomerates. So as a conclusion it can be said, that the media industry has developed towards an industry with the control of only a few media conglomerates within the last fifty years.

These conglomerates are formed by vertical as well as horizontal expansion in the business. From the business perspective the conglomerates do have a lot of advantages by this expansion, but from the view of the customer it is questionable if the development is positive. One question which should be asked is: By a shrinking competitive environment is there enough competitive pressure in the markets to keep the quality high, or do the conglomerates have so much power, that their media is bought anyway, despite the level of quality? 6

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(last access: 07/31/2010) 7