

Disney case study – diversification essay sample

[Business](#), [Company](#)



Throughout Michael Eisner's time at the Disney Company he believed corporate synergy was the key to success. By actively encouraging synergy Disney could get the most out of its brand and create value that would greatly contribute to the growth of the company (Case, p. 11). Synergy refers to how, by working together, two or more businesses can increase value creation greater than if they were working separately (Goode and Campbell, 1998). How Eisner sourced synergy will be discussed later, but first we must look at the different businesses and industries the Disney Company occupied to get an idea of how synergy might be attempted.

The Disney Company as a whole works within the family entertainment and media industry (Thewaltdisneycompany. com, n. d.), however this does not adequately reflect the scope of diversification undertaken by the company. Disney has five business segments: media networks, studio entertainment, theme parks and resorts, consumer products and Internet and direct marketing (Case, p. 18). Below is a table that shows the different industries that each segment competes in and examples of how the Disney Company competes in these industries.

Business Segment	Industries	How Disney competes in the industry
Media Networks	Kids TV industry	

- Television news industry
- Children's radio
- Radio news industry
- ABC deal gives radio stations
- ABC Television Network
- Radio Disney
- ABC Radio

Studio Entertainment – Kids/family film industry *

- Teen/adult film industry
- Kids TV industry *
- Teen/adult TV industry
- Pop music industry
- Theatre production industry
- Film distribution industry *
- Home video/DVD distribution industry *
- Walt Disney Pictures
- Touchstone Pictures
- The Golden Girls
- Touchstone Television
- Hollywood Record Label
- Beauty and the Beast (Broadway)
- Buena Vista Distribution
- Buena Vista Home Entertainment

Theme Park and Resorts

- Children's theme park industry *
- Cruise line industry
- Family resort industry *
- USA professional ice hockey industry
- USA professional baseball industry
- Disneyland Resort, Tokyo Disneyland
- Disney Cruise Line
- Disney Vacation Club

- Mighty Ducks of Anaheim

- Anaheim Angels

Consumer Products

- Children's toy industry

- Children's apparel industry

- Adult's book industry

- Children book industry

- Children's educational software industry

- Children's video games

- Licensing of name, characters etc.

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- Hyperion Books publisher

- Disney Press

- Disney Interactive

- Disney Interactive

Internet and Direct Marketing

- Web portal industry

- Go. com

Sixteen of these 22 industries that Disney competed in were introduced under Eisner. This shows that Eisner was focussed on horizontal diversification, introducing new products/services to Disney's line (Ansoff, 1957). Not only did Disney undergo horizontal diversification, but it also took on diversification on a geographic and vertical scope. Though some of Disney's businesses may be unrelated, the company has mostly undergone related diversification since new businesses tended to have commonalities

with existing businesses. For example the film and theme park unit require similar creativity processes in the form of captivating the minds and hearts of children and their families through Disney's animated characters. It is commonalities such as these that allow for the sharing of capabilities. Now that the diversification of Disney has been looked at, we can start to determine how the company sourced synergy. Disney's core competency was managing creativity according to Eisner (Case, p. 4) and since Disney's businesses had commonalities, this core competency could be shared.

This meant Disney could encourage innovation and creativity throughout the company, but also expect each business to perform financially and strategically, thus creating significant company-wide value. Shared value chain activities were a major source of synergy under Eisner, with cross promotion being one of many examples. Eisner realised that by performing similar promotional activities together, each business unit would benefit. So, before a Disney movie was released, heads from the consumer products, home video and theme park units would meet and discuss promotional strategies (Case, p. 11). This resulted in company-wide promotional activities that led to economies of scope and far more effective promotions. A final source of synergy for Disney was through vertical integration. Disney took advantage of the Internet and their acquisition of ABC. The Internet was seen as another distribution channel for Disney's film library as well as its sports and news programming, and ABC started to produce more of its own content under Eisner rather than buying from other studios (Case, p. 12).

By doing this, Disney could reduce costs and have more control over what type of programmes they aired, thus adding value to the company. These sources of synergy were all actively encouraged, with Eisner's Disney Dimensions, described as a synergy boot camp; the synergy group, which aimed to maximise synergy throughout Disney; and bonuses to those who were most synergetic (Case, p. 11). Synergy has contributed to the success in each of the businesses it operates in. By working together and taking part in events such as Disney Dimensions, executives of Disney units learnt more about the company as a whole and gained greater networks within Disney. Businesses became more efficient as a result, as synergy allowed executives to cut out the middle man and talk to each other directly, thus making Disney more effective too. Activities such as cross promotion and merchandising increased revenues, especially in the customer products business as merchandised products were strategically promoted with the animated films.

Synergy also contributed to the success of Disney's teen/adult television business when Eisner merged Touchstone Television into the acquired ABC, saving an estimated \$50 million a year (Case, p. 12). Finally, synergy was sourced through the sharing of knowledge and skill (Porter, 1987) in the theme park unit when, rather than building a new park in Paris, Disney-MGM Studios (Florida) transferred their knowledge and skill so that popular attractions were included in Paris' Disney Studios Park (Case, p. 12). The major source of synergy at Disney was through the leveraging of shared activities and in particular their promotional activities. With different units promoting in conjunction with each other, each were able to gain greater

revenues than if they were to promote alone. (b) Compare the synergy harnessed in Eisner's era (post-1984 years) with the synergy harnessed in Walt Disney's era (pre-1966 years). How has the underlying logic changed and do you find the new logic more or less compelling.

Although Walt Disney and Michael Eisner each led the Disney Company at different stages of the company's lifecycle, both diversified the company during their time. One of their differences was how each harnessed synergy and how both experienced varying degrees of success. After the creation of Steamboat Willie in 1928, Walt Disney experienced success with his company as it began to grow. Walt Disney's short cartoons were very successful but he realised that they were not enough to enable longevity of the company. Disney moved into full-length feature films that Walt believed would bring in the big money (Case, p. 2). It was a huge success, with Snow White and the Seven Dwarfs remaining the highest grossing animated film of all time (Case, p. 21). Despite the huge growth and having to go public, the company struggled after the war and Walt decided to diversify further. The new business lines increased revenues within the company and broadened the horizons of the Disney experience.

Arguably, Walt Disney's greatest strategic move was to develop Disneyland and enter the theme park industry. This was a highly risky move with the extreme costs associated, but it was a risk that paid off hugely and would be imitated in the future (Case, p. 3). The Walt Disney era was ultimately a success where the Disney Company grew significantly. Walt first sourced synergy when Disney moved into full-length feature films, enabling two

similar businesses to work together. He did this due to life cycle reason of the current cartoon shorts; realising shorts were not able to sustain any real profits. However Walt's major source of synergy came through vertical integration to gain market power. By vertically integrating its distribution channel into Buena Vista, Disney cut costs and shut out distributors, adding value to their business and gaining market power. Vertical integration such as this also gave Disney greater leverage over its operations and it is clear Walt thought this was a valuable asset as he says, "The one thing I learned from Disney is to control the environment" (Case, p. 3).

When Michael Eisner took over, the company was starting to deteriorate in some areas. Eisner seemed to magically improve matters at Disney. The film division went from a miserable 4% market share at the box office to a 19% share within 4 years, making Disney the market leader (Case, p. 5). Disney created hit sit-coms and were syndicating programmes, their home video division was performing extremely well with Buena Vista Home Video being market leader at home and overseas and the Disney Theme Parks were a continued success with strategies to expand. New businesses such as The Disney Store and theatre productions were also performing well. However after the sudden death of President Wells in 1994 and the merger with ABC in 1995, Disney's financial performance started to decline. They were no longer hitting their 20% annual growth target in 1999 and although growth returned in 2000, it was by no means due to Disney itself, rather the ABC hit show Who Wants To Be a Millionaire (Case, p. 9). The live-action and home video units experienced changes in strategies due to poor performance.

It was really only Disney's theme parks that remained successful and in 1999 Eisner instigated cost-cutting plans that was estimated to save \$500 million a year from 2001. The major source of synergy in Eisner's era was through leveraging shared activities. Synergy was created actively and purposefully under Eisner with the introduction of Disney Dimensions, which trained executives to be synergetic, as well as a synergy group to maximise synergy throughout Disney and award schemes for those who were most synergetic. As mentioned earlier one example of leveraging shared activities was Disney's cross-promotion when releasing an animated movie. Disney also did this on a geographic scale. By bringing foreign offices under regional executives, Disney could create synergy through cross-promotion to result in higher revenues abroad (Case, p. 12). Initially one might conclude that the synergy sourced by Walt through vertical integration was more compelling as it enabled Disney to grow from its foundation to what the brand now stands for.

However Disney's success in this time wasn't just due to strategy. Walt Disney himself was a main asset and attraction (Case, p. 3), and without him Disney would not have performed nearly as well. Walt was the creative force behind the company and this was evident as performance dropped after he died. As for Eisner's era, the creation of synergy was key to the company's rebirth. Disney entered many new businesses and the leveraging of shared activities between these businesses increased performance immensely. Yet it can be argued that Eisner became too focussed on synergy, causing him to be distracted from the 'nuts and bolts' of the business (Goode and Campbell, 1998) that lead to Disney's decline. After the acquisition of ABC, it

seemed evident that synergy would not happen. The merger was too big for the two businesses to work effectively together and there were reports of a culture clash (Case, p. 9) but synergy remained a key focus for Eisner.

Despite the slump Eisner's experienced, his new logic of harnessing synergy is more compelling since he was able to miraculously turn fortunes around at Disney, whilst the success under Walt was not just down to synergy, but Walt Disney himself as an individual.

References

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